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IDENTIFYING STRATEGIC CONTENT AMONG FORMER PUBLIC UTILITIES

**A thesis submitted in part fulfilment of the requirements
for the degree of Doctor of Philosophy**

RESTRICTED ACCESS

HOWARD VINEY

Middlesex University Business School

February 2001

ABSTRACT

The importance of privatisation and other forms of market liberalisation as tools of economic and political policy is well documented, and the concepts continue to command prominence in a large number of economies across the globe. Most academic research undertaken to date has focussed upon its macro-economic motivations, the importance of regulation, and increasingly assessments of the economic benefits of instituting privatisation programmes. The literature indicates a dearth of empirical research on the managerial aspects of privatisation: the strategic responses of the companies emerging from such privatisation programmes, and the key influences which have shaped their strategic responses. In general, the industries which have witnessed privatisation have tended to be former state owned enterprises, or industries of strategic importance, where low performance standards and quality failures have been characterised as being endemic. Clearly, there is a real need to learn from existing responses, so that models of best practice can be established to smooth the transition of organisations encountering strategic reorientation, and to prevent the development of new sets of operating difficulties. In addition, the literature suggests that existing managerial models which aim to provide business decision makers with viable strategic responses to changing circumstances have not been adequately tested in non-traditional market conditions such as those experienced by companies following a major privatisation.

Accordingly, this study aims to identify the content of corporate and business level strategy among a sample of recently privatised former public utilities: the Regional Electricity Companies of England and Wales, and to understand the nature of the strategic drivers which have helped to shape these strategic responses. In so doing, the research aims to create an understanding of the suitability of a range of corporate and business strategy combinations for application in a partially regulated environment, in order to enable a company: to identify and pursue the appropriate strategies in pursuit of competitive advantage; manage its relationships with a variety of strategic drivers; to fulfil

its public service obligations; and in so doing to navigate a potentially uncertain environment in a time of profound change.

In addition, the study aims to review a series of existing managerial models in the light of the experiences of the RECs, and determine the degree of confidence that can be said to exist in their applicability in non-traditional market situations. In particular, the thesis comments upon the applicability of the Miles and Snow typology of organisational strategy, structure and process in a regulated environment, and suggests some tentative amendments. This research is identified as being primarily exploratory, based as it is upon a study of a single industry. While the author has confidence in the validity of the findings, this thesis is intended to be the first stage in an extended research project which would see these findings subjected to rigorous verification in a wider sample of companies of this type. As discussed earlier, the need for research of this nature at this time is identified as being compelling due to the current proliferation of privatisation programmes, the severity of the problems that they are trying to resolve, and the unique position of UK industry to provide recommendations based upon practical experience.

The research utilises a broadly phenomenological method. An extensive review of the literature revealed not only limitations in existing knowledge, but the work of various authors in identifying the available corporate and business level strategic options available to organisational decision makers. These lists of options provided a broad framework for the identification and gathering of data, and its inductive interpretation. The process of data collection was undertaken initially using a form of content analysis of published sources, against a framework derived from the literature and a series of exploratory interviews. From this process a series of observations, in the form of tentative propositions, were drawn. These propositions were then tested deductively using multiple in-depth interviews within three case study companies and the degree of confidence in each proposition established. The case study companies were selected on the basis of their ability to represent the industry as a whole, based upon their current approach to growth; the research having earlier identified three distinct sub-groupings of behaviour in respect of strategies for growth.

The research resulted in a number of key findings. Firstly, that despite expectations that differing patterns of strategic response would emerge following market liberalisation, the companies remaining within the industry appear to have gravitated towards three basic generic responses; broadly defined as concentrated growth, organic market development, and market development by acquisition. Consequently, there is a large degree of strategic symmetry although tactical differences do remain. Secondly, that the importance of regulation as a driver of strategy can not be underestimated, even in those parts of the industry which are theoretically free from regulatory influence. The findings suggest even allowing for the importance of regulation, other factors such as ownership, leadership, as well as other external and internal factors all need to be accounted for. The general conclusion here was that the impact of strategic drivers was situational. Thirdly, that companies have little or no flexibility in their choice of the business/competitive strategy that they pursue, with a combination of market regulatory and consumer expectancy factors dictating their terms of competition. Finally, the research suggests a need for the amendment of the Miles and Snow typology before it is applied in regulated environments, as well as suggesting that a degree of caution is exercised in the use of some other established and externally verified managerial models. The research produces a wide range of recommendations for further study. These recommendations concern (a) verification of conclusions drawn by the research and (b) exploration of issues which emerged during the research process.

The research extends the existing literature's understanding of strategic content decisions among companies adapting to situations of strategic reorientation. It provides numerous examples of the responses organisations followed to a variety of strategic drivers, and identifies options which have been identified as viable in the UK energy industry as it currently stands. The research fills a number of gaps identified within the literature in relation to: the nature of organisational responses to strategic change; the relationship between strategic content and strategic drivers; the ability of long standing managerial models to perform in non-traditional market situations; and most importantly the viability of strategic responses in regulated environments.

There are a number of limitations which can be identified within the research. The qualitative nature of the research reflects a reliance upon interpretive analysis and opinion, either by the author or the industry managers who provide the majority of the primary data. However, the author has striven at all times for objectivity and has utilised techniques such as triangulation of data sources and collection methods to ensure objectivity. In addition, the focus upon a single industry may be viewed as a limitation upon the applicability of the findings to a wider business audience. However, in both of these cases, the author argues that the exploratory nature of the research and the acknowledgement of the need for, and intention to pursue, external verification overcomes any concerns that may exist in relation to these possible limitations.

The thesis comprises thirteen chapters. Chapter One introduces the study by providing a brief critique of the literature and establishes the study's aims and objectives. Chapter's Two and Four provide a review of the relevant literature in relation to the general management literature and the literature concerning issues relating to privatisation. The methodology and research design are outlined in Chapter Three. The remaining chapters present the analysis and interpretation of data in two stages: the preliminary stage in Chapter's Five to Seven, which is summarised in Chapter Eight; and the primary stage in Chapter's Nine to Eleven, summarised in Chapter Twelve. The thesis is concluded in Chapter Thirteen where the major findings and recommendations for future study are annotated.

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Table of Contents

Abstract	i
Acknowledgements	v
Table of Contents	vi
List of Figures	xv
List of Tables	xv
 Chapter One: Introduction	
1.0 Introduction	1
1.1 Critique of the Literature	1
1.2 Relevance and Importance of the Study	8
1.2.1 Global Reach of Privatisation	9
1.2.2 Effective Management of Former SOEs	10
1.2.3 Potential Deficiencies in Prescriptive Approaches	11
1.2.4 Managing A Paradigm Shift	12
1.3 Objectives of the Study	12
1.4 The Study's Contribution to Knowledge	14
1.5 Outline of Research Methodology	15
1.5.1 An Inductive Approach	16
1.5.2 Use of In-depth Interviews	17
1.5.2.1 Details of Primary Data Collection	19
1.6 Scope and Limitations of the Study	19
1.6.1 Limitations of a Case Based Approach	19
1.6.2 Limitations of a Single Industry Study	23
1.6.3 Studying the Electricity Industry	24
1.6.4 Use of Generic Strategies	25
1.6.5 Focus upon Strategic Content	25
1.7 Structure of the Report	26
 Chapter Two: Survey of Literature	
2.0 Introduction	29
2.1 The Concept of Strategy	31
2.1.1 Strategy Defined	31
2.1.1.1 Strategy as Plan	33
2.1.1.2 Strategy as Ploy	34
2.1.1.3 Strategy as Pattern	34
2.1.1.4 Strategy as Position	35
2.1.1.5 Strategy as Perspective	35
2.1.2 Importance of Strategy	36
2.1.2.1 Levels of Strategy Making	38
2.1.2.2 Strategy: Prescriptive or Emergent	40
2.1.2.2.1 Emergent Strategy	42
2.1.2.3 Alternatives	43
2.1.3 A Chronology of Strategic Thought	44

2.2	Differing Concepts of Strategy in Relation to the Firm	46
2.2.1	The Competitive Forces Approach	48
2.2.2	The Resource Based View of the Firm	50
2.2.3	Drivers of Strategy: Differing Perspectives	53
2.2.3.1	Strategy Drivers: A Competitive Forces Perspective	54
2.2.3.2	Strategy Drivers: A Resource Based Perspective	54
2.2.3.3	Impact of Strategic Drivers on Research	55
2.3	The Impact of Leadership	55
2.3.1	Leadership Defined	56
2.3.2	The Role of the CEO	58
2.3.3	Strategic Leadership	61
2.3.4	Impact on Research	61
2.4	The Importance of Structure	61
2.4.1	A Definition	62
2.4.2	Differing Perspectives	62
2.5	Classification Schemes and Systems: Typologies and Taxonomies	70
2.5.1	Different Levels of Classification	70
2.5.2	The Aims and Significance of Classification Systems/Schemes	70
2.5.3	The Features of Classification Schemes	75
2.5.4	Corporate Level Classification Schemes	78
2.5.4.1	Concentrated Growth	80
2.5.4.2	Market Development	80
2.5.4.3	Product Development	80
2.5.4.4	Innovation	81
2.5.4.5	Horizontal Integration	81
2.5.4.6	Vertical Integration	81
2.5.4.7	Concentric Diversification	82
2.5.4.8	Conglomerate Diversification	82
2.5.4.9	Turnaround	83
2.5.4.10	Divestiture	83
2.5.4.11	Liquidation	83
2.5.4.12	Joint Ventures	88
2.5.4.13	Strategic Alliances	88
2.5.4.14	Consortia	88
2.5.4.15	Feature of the Typology	88
2.5.5	Business Level Classification Systems and Schemes	89
2.5.5.1	The Contribution of Ansoff	89
2.5.5.2	The Contribution of Porter	91
2.5.5.3	Developments in Business Strategy	95
2.5.5.4	Chrisman <i>et al</i> 's Generic Business Strategies	97
2.5.5.5	Johnson and Scholes: A Synthesis of the Literature	99
2.5.5.6	Features of the Typologies	100
2.5.6	Organizational Models	103
2.5.6.1	Mintzberg's Generic Corporate and Business Strategies	103
2.5.6.1.1	Locating the Core Business	104
2.5.6.1.2	Distinguishing the Core Business	105
2.5.6.1.3	Elaborating the Core Business	106
2.5.6.1.4	Extending the Core Business	106
2.5.6.1.5	Reconceiving the Core Business(es)	107
2.5.6.1.6	Features of the Typology	108

2.5.6.2	Miles and Snow's Generic Typology	108
2.5.6.2.1	The Characteristics of the Defender	109
2.5.6.2.2	The Characteristics of the Prospector	110
2.5.6.2.3	The Characteristics of the Analyser	112
2.5.6.2.4	The Characteristics of the Reactor	113
2.5.6.2.5	Developments from the Original Typology	113
2.5.6.2.6	Features of the Typology	115
2.6	Concluding Remarks	116
2.6.1	Deficiencies in the Literature	116
2.6.2	Frameworks for Analysis	117
2.6.3	Critiques and Amendments	119
 Chapter Three: Methodology and Research Design		
3.0	Introduction	127
3.0.1	Characteristics of Research	128
3.1	Standard Research Concepts	129
3.1.1	Positivism	130
3.1.1.1	Chosen Methods of Exploration	131
3.1.1.2	Chosen Methods of Analysis	134
3.1.2	Phenomenology	135
3.1.2.1	Chosen Methods of Exploration	136
3.1.3	Deductive and Inductive Approaches	140
3.1.4	Approach Chosen for this Research	141
3.2	Research Process and Verification Measures	142
3.2.1	A Map of the Proposed Research	142
3.2.2	Triangulation	143
3.2.2.1	Triangulation at the Preliminary Stage	144
3.3	Domain Selection, Literature Survey and Exploratory Interviews	146
3.3.1	Domain Selection	146
3.3.2	Literature Survey	148
3.3.3	Exploratory Interviews	149
3.3.4	Outcomes of Exploratory Stage	149
3.4	Preliminary Stage Research	150
3.4.1	The Aims Of the Preliminary Stage	150
3.4.2	Features of the Preliminary Stage	150
3.4.3	Methodological Issues	151
3.4.3.1	Choice of Research Framework	151
3.4.3.2	Choice of Data Collection and Analysis Techniques	152
3.4.3.2.1	Content Analysis	153
3.4.4	The Process of Triangulation	156
3.5	Field Stage Research	156
3.5.1	The Aims Of the Field Stage	156
3.5.2	Features of the Field Stage	157
3.5.3	Methodological Issues	157
3.5.4	The Process of Triangulation	157
3.6	Hypothesis Building	158
3.7	Concluding Remarks	159

Chapter Four: Conceptual Background and Industry Context		
4.0	Introduction	162
4.1	Brief History of Privatisation in the UK	163
4.1.1	Political Origins	164
4.1.2	Economic Origins	165
4.1.3	Motivations for the Privatisation of ESI	167
4.1.3.1	The Views of Politicians	168
4.1.3.1.1	Margaret Thatcher	169
4.1.3.1.2	John Redwood	171
4.1.3.1.3	Moore and Parkinson	172
4.1.3.2	Summary	173
4.1.4	The Events of the Privatisation	175
4.2	Structure of the Electricity Industry	176
4.2.1	Differentiating Market Models	182
4.3	Importance of Competition	187
4.3.1	Impact of Cross-Subsidy and Business Separation	188
4.4	Regulatory Environment	192
4.4.1	Role and Responsibility of the Regulator	192
4.4.2	Choice of Regulatory Regime	193
4.4.3	Regulation in Practice	196
4.5	Key Events Since 1989	196
4.6	Conclusions	198
4.6.1	Was it worth it?	199
4.6.2	Unique Characteristics of the ESI	201
Chapter Five: The Northern Industrial RECs		
5.0	Introduction	202
5.1	Manweb (formerly the Merseyside and North Wales Electricity Board)	204
5.1.1	Key Events: 1990-2000	204
5.1.2	Structure of Manweb	208
5.1.3	Strategy Decisions at Manweb	210
5.2	Norweb (Formerly the North West Electricity Board)	211
5.2.1	Key Events: 1990-2000	212
5.2.2	Structure of Norweb	215
5.2.3	Strategy Decisions at Norweb	218
5.2.3.1	Norweb	219
5.2.3.2	United Utilities	220
5.3	Northern Electric and Gas (formerly Northern Electric)	221
5.3.1	Key Events: 1999-2000	222
5.3.2	Structure of Northern Electric	226
5.3.3	Strategy Decisions at Northern Electric	229
5.3.3.1	Corporate Strategy	229
5.3.3.2	Business Strategy	230
5.4	Yorkshire Electricity	232
5.4.1	Key Events 1990-2000	232
5.4.2	Structure of Yorkshire Electricity	235
5.4.3	Strategy Decisions at Yorkshire Electricity	238
5.5	Analysis of Cases	240
5.5.1	Observations: Objective One	240

5.5.1.1	Combinations of Grand Strategy	247
5.5.2	Observations: Objective Two	249
5.5.2.1	The Question of Leadership	251
5.5.3	Other Observations	251
5.5.4	Concluding Remarks	253
 Chapter Six: The Midlands and Agricultural RECs		
6.0	Introduction	254
6.1	East Midlands Electricity (EME)	255
6.1.1	Key Events: 1990-2000	256
6.1.2	Structure of EME	262
6.1.3	Strategy Decisions at EME	265
6.1.3.1	Corporate Strategy	266
6.1.3.2	Business Strategy	268
6.2	Midlands Electricity (now known as GPU Power UK)	269
6.2.1	Key Events: 1990-2000	270
6.2.2	Structure of Midlands Electricity	273
6.3.3	Strategy Decisions at Midlands	275
6.3.3.1	Midlands Electricity 1989-1998	275
6.3.3.2	GPU Power UK 1998-the Present	278
6.3	South Wales Electricity Case Study (aka SWALEC, a subsidiary of Hyder)	278
6.3.1	Key Events: 1990-2000	279
6.3.2	Structure of SWALEC	283
6.3.3	Strategy Decisions at SWALEC	285
6.4	South Western Electricity Case Study (aka SWEB, and latterly as Western Power Distribution)	287
6.4.1	Key Events: 1990-2000	287
6.4.2	Structure of SWEB	291
6.4.3	Strategy Decisions at SWEB	294
6.5	Analysis of Cases	296
6.5.1	The Midlands RECs: Observations: Objective One	296
6.5.1.1	Combinations of Grand Strategy	300
6.5.2	The Midlands RECs: Observations: Objective Two	300
6.5.2.1	The Question of Leadership	302
6.5.3	The Midlands RECs: Other Observations	302
6.5.4	Midlands RECs: Concluding Remarks	303
6.5.5	The Agricultural RECs: Observations: Objective One	305
6.5.5.1	Combinations of Grand Strategy	308
6.5.6	The Agricultural RECs: Objective Two	309
6.5.6.1	The Question of Leadership	310
6.5.7	The Agricultural RECs: Other Observations	310
6.5.8	The Agricultural RECs: Concluding Remarks	311
 Chapter Seven: The Southern Suburban RECs		
7.0	Introduction	313
7.1	Eastern Electricity	313
7.1.1	Key Events: 1990-2000	314
7.1.2	Structure of Eastern Group	319
7.1.3	Strategy Decisions at Eastern Group	323
7.1.4.1	Corporate Strategy	323

7.1.4.2	Business Strategies	326
7.2	London Electricity	327
7.2.1	Key Events: 1990 - 2000	328
7.2.2	Structure of London Electricity	332
7.2.3	Strategy Decisions at London Electricity	335
7.2.3.1	Corporate Strategy	335
7.2.3.2	Business Strategies	337
7.3	Seeboard (Formerly the South Eastern Electricity Board)	337
7.3.1	Key events: 1990-2000	338
7.3.2	Structure of Seeboard	340
7.3.3	Strategy Decisions at Seeboard	344
7.3.3.1	Corporate Strategy	345
7.3.3.2	Business Strategy	346
7.4	Southern Electric, now part of Scottish and Southern Energy	346
7.4.1	Key Events: 1990-2000	347
7.4.2	Structure of Southern Electric	352
7.4.3	Strategy Decisions at Southern Electric	356
7.5	Analysis of Cases	357
7.5.1	Observations: Objective One	357
7.5.1.1	Combinations of Grand Strategy	364
7.5.2	Observations: Objective Two	365
7.5.2.1	The Question of Leadership	367
7.5.3	Other Observations	367
7.5.4	Concluding Remarks	369
 Chapter Eight: Mapping the Industry: Concluding the Preliminary Stage Research		
8.0	Introduction	370
8.1	Summary of Objective One	370
8.1.1	Analysis of the Content of Strategy	371
8.1.1.1	Summary of Observations	376
8.1.2	Analysis of Strategic Combinations	387
8.1.3	Developing Propositions	389
8.2	Summary of Objective Two	390
8.2.1	Deductively Identified Drivers	391
8.2.2	Inductively identified Drivers	393
8.2.3	Amending Framework	395
8.2.4	Developing Propositions	396
8.3	Classification	397
8.4	Other Key Issues	401
8.4.1	Competitive Forces verses the Resource Based View	402
8.4.2	Strategy Making At Different Levels	402
8.4.3	Leadership	403
8.4.4	The Impact of Structure	404
8.5	Concluding Remarks	404
8.5.1	Objective One: Observations and Future Aims	404
8.5.2	Objective Two: Observations and Future Aims	406
8.5.3	Objective Three: Observations and Future Aims	407
8.5.4	Objective Four: Observations and Aims	407

Chapter Nine: Case Study of Eastern Group		
9.0	Introduction	408
9.1	Summary of Observations of Eastern Group	409
9.1.1	Strategy within Eastern Group	409
9.1.2	Influences on Strategy within Eastern Group	411
9.1.3	Observations Drawn	413
9.2	Testing Propositions: Strategic Content and Combinations	413
9.2.1	Legitimising Proposition 1	414
9.2.2	Legitimising Proposition 2	416
9.2.3	Legitimising Proposition 3	417
9.2.4	Legitimising Proposition 4	419
9.2.5	Legitimising Proposition 5	421
9.2.6	Commentary	423
9.3	Testing Propositions: Strategic Drivers	423
9.3.1	Legitimising Proposition 6	424
9.3.2	Legitimising Proposition 7	426
9.3.3	Legitimising Proposition 8	431
9.3.4	Legitimising Proposition 9	432
9.3.5	Legitimising Proposition 10	433
9.3.6	Commentary	434
9.4	Validity of Classification	435
9.4.1	Validity of Classification of Eastern Group	435
9.4.2	Inductive Analysis of the Validity of Classifications	436
9.5	Other Key Issues	437
9.5.1	Competitive Forces verses the Resource Based View	437
9.5.2	The Impact of Process	438
9.5.3	Strategy Making at Different Levels	439
9.5.4	Leadership	440
9.5.5	The Impact of Structure	441
9.6	Concluding Remarks	441
Chapter Ten: Case Study of Seeboard		
10.0	Introduction	443
10.1	Summary of Observations of Seeboard	444
10.1.1	Strategy within Seeboard	444
10.1.2	Influences on Strategy within Seeboard	446
10.1.3	Observations Drawn	448
10.2	Testing Propositions: Strategic Content and Combinations	448
10.2.1	Legitimising Proposition 1	449
10.2.2	Legitimising Proposition 2	450
10.2.3	Legitimising Proposition 3	452
10.2.4	Legitimising Proposition 4	453
10.2.5	Legitimising Proposition 5	455
10.2.6	Commentary	455
10.3	Testing Propositions: Strategic Drivers	456
10.3.1	Legitimising Proposition 6	456
10.3.2	Legitimising Proposition 7	458
10.3.3	Legitimising Proposition 8	460
10.3.4	Legitimising Proposition 9	461

10.3.5	Legitimising Proposition 10	463
10.3.6	Commentary	464
10.4	Validity of Classification	464
10.4.1	Validity of Classification of Seeboard	465
10.5	Other Key Issues	466
10.5.1	Competitive Forces verses the Resource Based View	466
10.5.2	The Impact of Process	467
10.5.3	Strategy Making at Different Levels	468
10.5.4	Leadership	469
10.5.5	The Impact of Structure	470
10.6	Concluding Remarks	471
 Chapter Eleven: Case Study of Western Power Distribution		
11.0	Introduction	472
11.1	Summary of Observations of SWEB	473
11.1.1	Strategy within SWEB	473
11.1.2	Influences on Strategy within SWEB	476
11.1.3	Observations Drawn	478
11.2	Testing Propositions: Strategic Content and Combinations	478
11.2.1	Legitimising Proposition 1	479
11.2.2	Legitimising Proposition 2	480
11.2.3	Legitimising Proposition 3	481
11.2.4	Legitimising Proposition 4	482
11.2.5	Legitimising Proposition 5	484
11.2.6	Commentary	484
11.3	Testing Propositions: Strategic Drivers	485
11.3.1	Legitimising Proposition 6	485
11.3.2	Legitimising Proposition 7	488
11.3.3	Legitimising Proposition 8	488
11.3.4	Legitimising Proposition 9	490
11.3.5	Legitimising Proposition 10	491
11.3.6	Commentary	491
11.4	Validity of Classification	491
11.4.1	Validity of Classification of SWEB	492
11.5	Other Key Issues	493
11.5.1	Competitive Forces verses the Resource Based View	493
11.5.2	The Impact of Process	493
11.5.3	Strategy Making at Different Levels	495
11.5.4	Leadership	495
11.5.5	The Impact of Structure	496
11.6	Concluding Remarks	497
 Chapter Twelve: Evaluating Propositions and Classification		
12.0	Introduction	499
12.1	Evaluating and Amending Propositions	499
12.1.1	Validity of Proposition's 1 to 5	500
12.1.2	Validity of Proposition's 6 to 10	503
12.1.3	Evaluating Impacts of Different Drivers	505
12.2	Evaluating Existing Theory	506

12.2.1	Competitive Forces and Resource Based Views	506
12.2.2	Importance of Process	508
12.2.3	Strategy Making at Different Levels	509
12.2.4	Concepts of Leadership	510
12.2.5	Importance of Structure	511
12.2.6	Organising Themes	511
12.3	Systems of Classification	512
12.3.1	The Research Framework	512
12.3.1.1	Corporate Level Systems	512
12.3.1.2	Business Level Strategies	513
12.3.2	Organizational Models	514
12.4	Supporting Objective One	515
12.4.1	Implications of Deficiencies	516
12.4.2	Suggested Revisions	517
12.4.2.1	The Cautious Prospector	518
12.4.2.1.1	The Cautious Prospector (Monopoly)	519
12.4.2.2	The Analyzer	520
12.4.2.2.1	The Analyzer (Monopoly)	520
12.4.2.3	The Defender	521
12.4.2.4	Monopolist	521
12.4.2.4.1	Monopolist - Reactor	522
12.4.2.5	Follower	522
12.4.3	Reclassifying the RECs	523
12.5	Concluding Remarks	524
 Chapter Thirteen: Summary, Conclusions and Recommendations		
13.0	Introduction	526
13.1	The Aims and Objectives and the Extent That They Were Met	526
13.2	Summary of Key Findings	527
13.2.1	The Existence of Strategies and Combinations	527
13.2.2	The Existence of Key Drivers	529
13.2.3	The Suitability of Models and Techniques	529
13.2.4	Suggested Amendments to Models and Techniques	530
13.2.5	Establishing a Set of Hypotheses	530
13.2.6	Summary of Incidental Findings	533
13.3	Conclusions	534
13.4	Contributions	535
13.5	Recommendations	536
13.5.1	Understand the Objectives of Industry Regulation	536
13.5.2	Understand the Objectives of Other Stakeholders	537
13.5.3	Understanding of the Value of Resources	538
13.5.4	The Importance of Delegation	538
13.6	Direction of Future Research	539
13.7	Predictions	541
References		543
Appendix 1		569
Appendix 2		Withheld

List of Figures

Figure 1.1: Schedule of Interviews Conducted in Support of Research	20
Figure 1.2: A Map of the Thesis	28
Figure 2.1: Porter's Five Forces Model: Forces Driving Industry Competition	49
Figure 2.2: Grant's Framework for a Resource-Based Approach to Strategy Analysis	51
Figure 2.3: Drivers of Strategy	53
Figure 2.4: Ansoff's Growth Vector Components	90
Figure 2.5: A Map of Possible Strategy Drivers	118
Figure 2.6: Possible Strategy Combinations	121
Figure 3.1: A Map of the Proposed Research	143
Figure 3.2: Process of Triangulation	144
Figure 3.3: Process of Content Analysis: A Themic Analysis	155
Figure 4.1: Old Structure of ESI in England and Wales	179
Figure 4.2: New Structure of ESI in England and Wales	179
Figure 5.1: Current Structure of United Utilities	218
Figure 5.2: Yorkshire Electricity Management Structure, 1997	237
Figure 6.1: The Current Structure of PowerGen/EME	265
Figure 6.2: Group Structure of Midlands Electricity, 1994	276
Figure 6.3: Group Structure of GPU Power UK, 2000	276
Figure 7.1: Group Structure of TXU Europe	323
Figure 7.2: The Current Structure of London Electricity	334
Figure 7.3: Executive Director's Areas of Responsibility, 1993	341
Figure 7.4: CSW UK Group Structure	344
Figure 7.5: Structure of Scottish and Southern Energy	355
Figure 8.1: Drivers of Strategy (Revised Version)	396
Figure 9.1: TXU Energy Chain	422

List of Tables

Table 2.1: Definitions of Strategy	32
Table 2.2: Mintzberg's Various Kinds of Strategies, from Rather Deliberate to Mostly Emergent	36
Table 2.3: The Evolution of Strategic Management	45
Table 2.4: Mintzberg's Structural Configurations	64
Table 2.5: Causes of Failure in Traditional Organizational Forms	66
Table 2.6: Miller's Relationship Between Structure, Environment and Strategy	69
Table 2.7: Features of Grand Strategies	84
Table 2.8: Requirements of Pursuing Porter's Competitive Strategies	92
Table 2.9: Conditions and Implications of Pursuing Porter's Strategies	93
Table 2.10: Progression in Business Strategy	96
Table 2.11: Johnson and Scholes (1999) Typology of Business Strategies	101
Table 2.12: Chief Characteristics of the Miles and Snow Model	111
Table 3.1: Selected Methods of Data Collection	132
Table 3.2: Relevant Situations for Different Research Strategies	137
Table 3.3: Composition of Sub-Samples Presented in Chapters 5-7	151
Table 4.1: Structural Characteristics of Four Market Models	183
Table 4.2: Structural Characteristics of ESI Composite Industries	184
Table 4.3: Characteristics of a Regulated Oligopoly	185
Table 4.4: Electricity Industry Licences	190
Table 5.1: Current Structure of Northern Electric and Gas	228
Table 5.2: Price Comparison	242
Table 5.3: Standing Charge Comparison	242
Table 5.4: Content Analysis of Manweb	243
Table 5.5: Content Analysis of Norweb/United Utilities	243

Table 5.6: Content Analysis of Northern	245
Table 5.7: Content Analysis of Yorkshire	245
Table 5.8: Impact of Possible Strategy Drivers	249
Table 5.9: Structural Matrix	252
Table 6.1: Content Analysis of East Midlands	298
Table 6.2: Content Analysis of Midlands	298
Table 6.3: Impact of Possible Strategy Drivers	301
Table 6.4: Structural Matrix	303
Table 6.5: Content Analysis of SWALEC/Hyder	306
Table 6.6 Content Analysis of SWEB/WPD	306
Table 6.7: Impact of Possible Strategy Drivers	309
Table 6.8: Structural Matrix	311
Table 7.1: Content Analysis of Eastern Group	360
Table 7.2 Content Analysis of London Electricity	360
Table 7.3: Content Analysis of Seeboard	362
Table 7.4 Content Analysis of Southern Electric	362
Table 7.5: Impact of Possible Strategy Drivers	366
Table 7.6: Structural Matrix	368
Table 8.1: Evidence of Corporate and Business Strategy, 1989-1995	372
Table 8.2: Evidence of Corporate and Business Strategy, 1995-2000	374
Table 8.3: Strategy in 1990	378
Table 8.4: Strategy in 1994	380
Table 8.5: Current Strategy	384
Table 8.6: Strategy Combinations 1989-1995	388
Table 8.7: Strategy Combinations 1995-2000	388
Table 8.8 : Strategy Drivers, 1989-1995	393
Table 8.9 : Strategy Drivers, 1995-2000	393
Table 8.10: Classification of the Sample	399
Table 8.11: Classification 1990-2000	401
Table 12.1: Organizational Classifications in a Regulated Environment	518
Table 12.2: Reclassification of the Sample	523

1.0 Introduction

This chapter has four principal aims. Firstly, through a critique of the relevant literature, the chapter seeks to make a case for the research undertaken and reported here. The strength of this case depends upon the identification of a deficiency within the existing literature, and a recognition of a real need for this gap to be filled. This investigation inevitably drives the direction of the research, by suggesting a variety of key areas within which exploration is required. Therefore, secondly, the chapter seeks to clarify the research questions that the thesis seeks to pursue, to reflect the identified need for exploration. This involves the generation and pursuit of a series of key objectives. These objectives actively determine the shape and content of the thesis and therefore clarity in respect of these objectives is imperative. Through the establishment of these objectives, the intended contribution to knowledge made by the thesis is also clarified. Thirdly, the chapter seeks to briefly identify the methodological approach adopted throughout the thesis, which includes a section acknowledging any deficiencies that the research may have. Finally, the chapter provides details of the structure and content of the thesis, to guide the reader through the forthcoming analysis.

1.1 Critique of the Literature

The privatisation in 1989 of the United Kingdom (UK) Electricity Supply Industry (ESI) by the second Conservative administration of Margaret Thatcher has been portrayed as the "culmination of a concerted policy" (Thomas, 1996, p.40). This policy was aimed at achieving a reduction in the overall level of public ownership within the UK, coupled with an ideologically grounded attempt to move decision making within the productive sectors of the economy from public to private hands (Kay *et al*, 1986). As part of this 'concerted policy' most former State Owned Enterprises (SOEs) had followed a similar path into the private sector: British Telecommunications (BT) in 1983, British Gas (BG) in 1986, and the companies of the water industry in 1989. The impact upon the UK economy was profound. Figures from the Organisation for Economic Cooperation and Development (OECD) show that the accumulated proceeds resulting from privatisation in the UK between 1979 and 1991 came to £44.5 billion, equivalent to 11.9% of Gross Domestic Product (GDP) over this period (quoted in Stevens, 1992). This figure had risen to more than £60 billion by 1997 (Martin and Parker, 1997).

The Conservative Party had identified privatisation as a possible solution to what it saw as the increasing tendency towards public ownership developing during the early 1970's (Bishop and Kay, 1992), with which it disagreed. Privatisation presented a solution to the dual problems of curbing public sector union activism, and of funding its investment programme without recourse to public borrowing (Bishop and Kay, 1992), and was put into practice after the Party's victory in 1979. It also provided an area where the Government could expound and test its politico-economic ideology, which authors such as Beesley and Littlechild (1983) identify as originating from the work of economists working in America in the 1970's such as De Alessi (1974) following classical economists like Hyack (1948, 1978) and 'The Austrian School', whose work was then adapted in the UK by Conservative Party ideologues like John Redwood (1980).

However, what set the ESI apart from the earlier privatisation's, making it "the biggest and most radical project in the extensive UK privatisation programme" (Surrey, 1996a, p.3), was the emphasis placed upon the introduction of competition. The preceding BT and BG privatisation's had effectively replicated existing state managed monopolies within the private sector (Holmes, 1992¹, among many others). These decisions had been the cause of considerable debate and reproach from observers, who questioned the veracity of such a choice, given the rationale underlying the concept of privatisation².

To a degree, this criticism was shared within government circles. The then Secretary of State (Parkinson) was reported to have fought hard against a unitary privatisation which "threatened merely to perpetuate a state monopoly under different colours" (Travers, 1988, p.54). This led the Minister directly into a confrontation with the Head of the Central Electricity Generating Board (CEGB), who wished for, but did not receive, the same treatment as his counterparts in Telecommunications and Gas. The ESI was therefore the first privatisation in the UK, and probably the world, where alongside the more normal change of ownership and industrial restructuring, competition was immediately forced upon the newly created companies (Burton, 1997).

Privatisation was, and remains, a crucial element in the UK's socio-economic and political life at the end of the Twentieth Century, and an examination of the literature related to

1

Holmes notes that one of the key aims of the electricity privatisation was "to make amends for the mistakes made in privatizing BG and BT" (Holmes, 1992, p.15).

2

The issue of rationale is addressed in Chapter Four.

privatisation shows that much has been written. For example authors such as Kay *et al*, 1986; Ramanadham, 1988, 1994; Vickers and Wright, 1989; Weyman-Jones, 1989; Holmes, 1992; Clarke and Pitelis, 1993; Armstrong *et al*, 1994; Jackson and Price, 1994; Bishop *et al*, 1994, 1995; Surrey, 1996a; Beesley, 1997; Martin and Parker, 1997 among many others, have each produced detailed analysis. However the author argues that the analysis conducted by these authors predominantly examines the principal macro economic and political motivations for privatisation, and the related issues of regulation and liberalisation. The academic literature has paid very little attention to the direction and content of the strategies such companies have followed after industrial transformation, and the development of a competitive environment.

The author argues that no formal analysis of the process of strategic development among the companies formed by privatisation has been attempted, nor has any study been undertaken of their adaptive behaviour when faced with a major paradigm shift. This, the author argues, represents a major deficiency within the literature on industrial transformation, and an estimable opportunity to begin to study the dynamic relationship between corporate strategy under conditions of transformation, regulation and the introduction of competition. It is to the need for an investigation of this sort to which this section now turns.

Inevitably, the speed with which text books can comment upon emergent trends is limited, but an examination of writings on the subjects of privatised utilities and strategy in academic journals shows a similar trend. InfoTrac (a product of the Gale Group) is a major online academic database boasting references to more than 6.3 million academic and business articles abstracted from leading English language academic journals, financial publications and newspapers published since 1980³. A search of this index reveals that there are 17,010 references to privatisation, of which 1049 appear in refereed academic journals. Of these 17,010 articles, only 122 refer to privatisation in public utilities. The number of references to public utilities within the same database is 8713. In seeking to identify elements of the literature that may be relevant to the questions at hand, further searches were conducted⁴. A search using the terms 'privatisation' and 'strategy' revealed 359 articles in refereed academic journals, while a search for 'public utilities' and

3

All figures *circa* September 2000.

4

It should be noted that this exercise has been conducted for the purposes of this introduction, and the need to reveal the deficiency in this area of the management literature. Frequent, extensive surveys of the literature have been conducted over the preceding six years.

'strategy' similarly revealed 302 articles. Of these, only a small number address directly the issues of the process of strategic choice, the content of strategy and its implementation within privatised former public utilities, as again the emphasis is clearly placed on macro-economic issues and the motivations for privatisation.

Within the small number of articles that do focus upon issues of strategic direction and content, the deficiencies identified earlier are also discussed. An interesting perspective on the issue is provided by Miller, who argues that "while a considerable body of literature exists" on the subject of privatisation within the UK, "most of this literature examines individual business or industry-wide sales, focussing on the economy and society; the effect on employees, management and special interest groups; the legal consequences; the political implications; and the effect of privatisation on the firm's goals, strategy, structure and method of operation" (Miller, 1995, p.83). While the author agrees with the early sentiment of the statement, the latter part concerning the effect of privatisation 'on the firm's goals, strategy, structure and method of operation' is unsupportable, and it is interesting that Miller himself does not refer to any such studies to justify his statement. With the notable exception of work by the author and colleagues in the conceptualisation of strategy among electricity companies (see in particular Ghobadian *et al*, 1998), and the work of Ogden and Glaister (1996) in a similar study of the water companies, the author is not aware of any studies of the kind described by Miller.

There are a number of articles exploring the impact of competition on, in particular, the energy industry (Green and Newbery, 1997a; Burton, 1997; Green and Price, 1995; Currie, 1998; Thurlby, 1998). However, these articles have tended to deal with the question of strategy in an abstract sense, rather than conducting an in-depth analysis of the process of strategic choice and determination of strategic content. Ogden and Glaister, in identifying their work with the UK water companies as a study of 'strategic reorientation', argue that studies of this type are rare, as most concentrate upon "elaboration and refinement of existing strategies" (Ogden and Glaister, 1996, p.663) rather than the new strategy development or reorientation which forms the centre piece of this thesis.

Essentially, therefore, this critique concerns a lack of focus upon the various aspects of micro level strategy within the companies formed by the privatisation of former SOEs in the UK. Given the innovative nature of the electricity industry's privatisation, this lack of attention paid to micro strategy processes is a puzzle. In no other UK or world privatisation at the time had a change of ownership been accompanied by industrial

disintegration and forced competition⁵. However, it is now ten years since the ESI was privatised and competition in utility industries is more common, so this is a less convincing argument. It may therefore reflect a belief that micro issues were and are less important than the wider macro issues.

Evidence gathered for this thesis suggests that when the ESI was privatised legislators paid very little attention to the issue of the corporate strategies of the companies created by the act. In an interview conducted for this research project with an officer from the Office of Electricity Regulation (OFFER) (OFFER, UK001, 1999c), the extent of the autonomy provided to the companies with respect to their corporate strategy is clear: "The 1989 Electricity Act, which set out the framework for the privatisation of the 14 Regional Electricity Companies⁶.....was simply a framework and outline document. The details of what the companies were expected to do in terms of regulatory provision was further enhanced by a series of licences; in the main the 'Public Supplier of Electricity' licence. That particular document set out various tasks and necessities that the companies had to do in terms of their customers, and that required them on a number of fronts to produce certain documents which would denote the services that they were providing to customers. In particular customers who may have difficulty in paying debt; giving customers advice on energy efficiency; dealing with other vulnerable customer groups. And that is about as far as it went in terms of guidance that was issued from OFFER as to what companies were expected to do. Guidance was very much at a macro level, and we never got into the nitty-gritty of organizational change, organizational strategy or indeed how we would expect a company to deliver the services which were expected of them. It was left very much up to them to decide what to do" (OFFER, UK001, 1999c).

As Chapter Four aims to show, the speed with which the privatisation was prepared could possibly explain this decision: the legislators simply ran out of time before certain guidelines could be set in place. Alternatively, it may have been that the Government believed that it was not their place to attempt to exert influence in this way, given the value attached to the 'unfettered' operation of the market. However, the failure to consider such issues at this stage may explain a number of the difficulties that the industry has experienced with economic regulation over the following ten years (James *et al*,

5

While Ogden and Glaister note that the legislators who privatised the water industries also sought competition among the water companies "in fields where they can do so" (HOC, 1986), the scope for competition was much greater in electricity and hence an issue of greater importance.

6

The Twelve RECs of England and Wales plus ScottishPower and Scottish Hydro-Electric.

2001), and which are discussed in the chapters of this thesis presenting field work. Offer's statement does, however, remove any fears that may have existed in the mind of the author that the lack of any previous academic study in this area was due to the RECs being so closely regulated in relation to their strategic choice, content and implementation as to render any study of limited value. Indeed, the statement presented above would appear to identify an area related to the privatisation which was discretionary, and hence of interest to students of the evolution of former SOE's.

Additionally, in part the interest for conducting the research comes from the UK's 'role' as a test bed for privatisation, and the reality that systems and structures developed here have informed developments in various countries around the world. The critique therefore lies in the fact that valuable lessons about how companies adapt to drastically changed circumstances may be lost if this question is not addressed. This issue will be returned to below in relation to the importance of the study. Therefore, this initial critique argues that the literature on privatisation is predominantly concerned with economic rather than managerial issues. This in itself would be of less concern if within the management literature compensatory sources of information existed that provided the necessary guidance to enable each company to affect adaptive change.

However, in a second critique of the literature, the author contends that while the general management literature devotes much time to the fundamental issues of strategic choice, content and implementation: what it is, how it is devised, who devises it and so on (significant works include those by Ansoff (1965), Andrews (1971), Mintzberg (1979), Porter (1980), Ohmae (1983) among many others), there exist serious doubts about the value of this literature to companies facing the demands of strategic reorientation. The literature spends much time exploring how change can be managed, even in some cases dealing with the demands of adapting to major change. This fundamental requirement of the strategy literature has seen the development of prescriptive generic strategy typologies, both by the authors mentioned above as well as other authors such as Miles and Snow (1978), Abell (1980), Mintzberg (1988) and many others, which seek to provide a variety of viable strategic configurations, from which a company may select the appropriate blend of structural, leadership, resource, and tactical positions to build their own strategic orientation.

However, various authors (Snow and Hrebiniak (1980), Douglas and Rhee (1989), Conant *et al* (1990), and Ketchen *et al* (1993) among others) have suggested, following empirical investigation, that the generic typologies mentioned above are subject to some inherent flaws. Their research has tended to suggest that such typologies should not be

universally applied, despite the claims of authors who believe that their concepts are generally applicable. In other words, while the various generic strategies are widely believed to be useful tools in the strategy process, they should not be regarded as necessarily appropriate for use in every circumstance, as some underlying assumptions made by their authors do not hold in all areas of business activity. For example, some authors have argued that approaches of this nature tend to reflect the environment in which they were created and hence are too American (Douglas and Rhee, 1989): that is culturally centred in the American business experience and so possibly unsuitable for application elsewhere.

Another criticism developed by authors exploring generic classification systems concerns the tendency of business templates provided by the literature to explain, guide and influence strategy formulation in 'mature' industries; defined as industries where growth rates have slowed or become 'more modest' (Porter, 1980, p.237), or where the relationship between the company, its markets, products and customers is more clearly understood. Effectively, in such industries, these templates provide a means by which past behaviour can be categorised, as they provide a *post hoc* rationalisation of what has observably occurred within that industry. Additionally, they enable a company to determine an approach by which companies can consolidate their positions, or possibly seek to change the business or competitive strategies of their organisation. Furthermore, the competitive strategy literature, and Porter's work in particular, provides guidance for companies who may be designated as 'new entrants' into 'mature' industries. The value of these approaches in a situation similar to the ESI is therefore questionable.

This second part of the critique rests therefore upon whether the ESI can be said to represent the type of industry that lends itself to the use of existing generic strategies, and so would constitute a suitable case for their application. It therefore continues to question the viability of widely accepted concepts in an industry which does not conform to expected norms. Before privatisation, the ESI was not an industry in the commonly understood sense. It was closer to a branch of the public service. Electricity generation, transmission, distribution and supply were undertaken by a monopolistic state corporation created in 1948 with the nationalisation of all existing municipal and private electricity concerns (Middlemass, 1993). While the industry before 1989 did possess a 'strategy', it was for the most part generally imposed upon it by central government in the form of a number of public service obligations. The most notable of these was intended to ensure that there was an adequate supply of electricity to whomsoever required it (Holmes, 1992, p.8). The ESI was not therefore concerned with issues such as competition, efficiency or service quality, and effectively unaccountable for its actions. Privatisation made the ESI

an industry; or rather made it four separate industries which were each, initially at least, heavily regulated. Most of the companies of the privatised ESI existed before 1989, but none of them in the form they would assume after privatisation. Incorporation and the introduction of competition made the difference, with the added accountability and responsibility for profitability that these demands bring. Hence, strategic reorientation. The author therefore argues that the companies of the ESI should be identified as new corporate entities required to operate in a new environment. This environment is both commercial and also, in parts, heavily regulated. In other words, it was an environment of which they had only limited experience.

In addition, as has already been noted, existing empirical research suggests that the models have failed to be effective in examination of regulated industries. An example of analysis of this type was presented by Snow and Hrebiniak (1980), who sought to empirically test the Miles and Snow (1978) typology in a series of US industries in the late 1970's. Their conclusion was that regulation allowed for 'failure' strategies such as Miles and Snow's reactor to succeed, in contrast to the general expectations resulting from the model (Snow and Hrebiniak, 1980, p.325-326). Snow and Hrebiniak argue the need for research to focus upon the issue of management models in regulated environments, but to date little or no research of this kind has been forthcoming.

1.2 Relevance and Importance of the Study

The preceding section has explained why the author considers there to be a need for the research. This section explains why this research is of particular relevance in the current economic and academic environment. In exploring the question of its relevance, the importance of the study is reinforced. Essentially, it is perhaps possible to identify four key areas. The first area, underpinning all other aspects of the research, is the importance that the concept of privatisation has come to assume in the global economy. Privatisation has become a key topic across the world, and the author here argues that an understanding of all aspects of the concept is vital if each privatisation is to achieve its unique objectives. The second area of significance rests with the principal aims and objectives that privatisation programmes have been intended to resolve. Many of these aims involve improving the effectiveness of industries of strategic importance, such as public services or major national employers, as well as furthering a government's socio-political objectives. As such, the identification of viable and tested organisational strategies and structures is a pressing need. A third area of importance lies with the work's ability to review and update the debate on the value of existing business typologies and to contribute towards the debate around the issue of universal applicability. Finally, the

research provides an opportunity to develop a case study of the change evident in an industry which has undergone a major paradigm shift. Each of these areas are discussed in full in the following sections.

1.2.1 Global Reach of Privatisation

During the 1980's and 1990's, the attraction of privatisation as a potential remedy available to countries experiencing extreme problems in their socio-economic infrastructure can not be underestimated. The roots of privatisation are probably different depending upon where you stand in the world. In the advanced industrial economies of the USA and UK, the roots were ideological but the outcomes are competitive (Lieberman, 1993, p.11). Given the perceived success of the policies pursued, for example, in the UK it is not surprising that countries suffering chronic infra-structural problems have embraced the concept with such relish. Recent figures published by the OECD (OECD, 2000) in relation to the revenue raised through privatisation show that many advanced European Union (EU) economies are heavily engaged in privatisation programmes: Italy, France, and Spain among them. There is also a strong representation from the emerging economies of central Europe: Poland, the Czech Republic and Hungary, and a smaller representation from South East Asia: Japan and Korea. Perhaps the most interesting figure is that of the UK, given as zero and perhaps reflecting how much earlier the UK sought to introduce this concept to its SOE's. These figures could be interpreted as suggesting that privatisation is followed exclusively by the advanced economies of Europe, Asia, Australasia and North America. This is not the case, although the growth of privatisation in Africa and Latin America is inevitably of a lower magnitude. A relatively recent issue of the Columbia Journal of Management highlighted the spread of privatisation across the rest of the globe.

One article in this edition focussed upon privatisation activity in Nigeria and Senegal, suggesting the growth in importance of privatisation in Africa (Drum, 1993). Privatisation has also been growing in importance in Central and South America. Volic and Draaisma (1993) identified the importance of privatisation in Mexico, while Lüders (1993) in Chile, and Mooney and Griffith (1993) in Argentina, identify similar developments in South America. OECD and World Bank reports chronicle the use of privatisation for tackling reform in transition economies (Pannier, 1996). For example, OECD country reports on Mexico notes that despite an extensive programme of privatisation, much of the Country's key sectors – railroads, airports, satellite services, gas and electricity - were almost untouched. A number of initiatives are underway in these areas and it is expected that progress in these industries will follow in 2000 (OECD, 1999). These articles suggest that there is some similarity in the rationale underlying the

use of privatisation in developed and transition economies, but that in transition economies the problems are more deeply embedded.

As Section 1.1 indicated, most of these processes have been undertaken against a backdrop of less than certain knowledge of the most effective ways in which to manage operations of this kind. The importance of the industries, and privatisation processes discussed require that establishing 'best practice', or understanding the congruence of aims, objectives and company strategy, is a high priority in order to ensure that privatisation processes do not create more intractable problems than they are intended to resolve. The next section explores some of the problems that privatisation has been intended to overcome.

1.2.2 Effective Management of Former SOEs

As will become clear from a review of the literature exploring the privatisation agenda in the UK in the 1980's (in Chapter Four), there were many reasons for the instigation of the programme, some positive but mostly negative. Lieberman, in his 1993 assessment of the importance of privatisation in the 1990's, identified the following characteristics of SOEs as an explanation as to why many governments have chosen to employ the approach. SOE's, he notes, are generally characterised by:

- ▶ poor financial performance;
- ▶ overstaffing;
- ▶ dependence on subsidies and unilateral budget transfers;
- ▶ highly centralised and politicised organizations;
- ▶ exclusion of competitive imports;
- ▶ exclusion of domestic competitors;
- ▶ poor export performance;
- ▶ corrupt practices; and
- ▶ being vehicles for capital flight (Lieberman, 1993, p.10).

Clearly, there are both macro and micro economic reasons behind the decision to pursue a privatisation approach. The full explanation is completed by a listing of the principal objectives that a privatisation programme will seek to achieve. These include objectives which:

- ▶ reduce the government's operating deficit;
- ▶ raise cash through SOE sales;
- ▶ generate new sources of tax revenue;
- ▶ reduce external debt;
- ▶ deepen domestic capital markets and broaden domestic equity ownership;
- ▶ further the "democratisation of capital";
- ▶ promote domestic investment;
- ▶ attract direct foreign investment and new technology;

- ▶ increase domestic and international business confidence;
- ▶ increase competition;
- ▶ create opportunities for employment through real growth;
- ▶ increase productive and operating efficiency;
- ▶ seek to “turn around” or restructure sick SOEs;
- ▶ increase exports;
- ▶ improve the quality of services; and
- ▶ reduce the role of the state in the economy (Lieberman, 1993, p.11).

Many of these characteristics and objectives are common to the UK privatisation programme. However, the key issues in respect of this research are those relating to operational effectiveness. That includes, therefore, turning around poor financial performance, management of overstaffing, introduction of effective organisational and managerial structures, and the increase of productive and operating efficiency, with an improvement of the quality of services.

Authors have noted that there should not be an automatic assumption that this change process will be smooth or even necessarily succeed. Holmes notes that “the fact of structural change does not of itself cause habits of mind to change. It will take a long time before the new companies find their own corporate style and habits, rather than those the Government’s financial advisors and PR men told them to adopt” (Holmes, 1992, p.51). The importance of effectiveness is simply enhanced by the fact that in many cases the industries which are being privatised are public utilities, and hence their effective operation is an issue for each member of society.

1.2.3 Potential Deficiencies in Prescriptive Approaches

As was noted above, the general management literature provides business decision makers with a variety of tools to aide them in the decision making process. These tools, typologies, models and techniques aim to identify generalizable behaviour for companies in specific situations, and suggest the appropriate strategic responses that these companies should make. Some of these tools relate strategy to structure, process and personnel to provide a wide ranging classification system to enable managers to more comprehensively understand the interrelationship of the various elements of their organisation. However, again as noted above, there is concern that not enough attention has been paid to the question of environmental context. Some authors claim that their approaches can be used in any given situation (Porter, 1980), while other authors who have empirically tested these models suggest that this is not the case, and that some models will operate only under specific conditions. Ketchen *et al* (1993) in particular note that some approaches intentionally adopt a single industry focus and concentrate upon maximizing internal

validity while sacrificing generalisability, while others seek to develop configurations which apply broadly and are not dependent upon particular industry contexts.

The concern that the models will not work in regulated environments has been expressed (Snow and Hrebiniak, 1980). This project aims to comment upon this issue, and to suggest ways in which this contention can (a) be tested and (b) possibly resolved. This is felt to be a significant issue in respect of this research, especially given the global reach of privatisation, and the problems that have been experienced in transition and emerging economies in terms of developing appropriate managerial and organizational structures to drive forward privatization programmes (Dharwadkar *et al*, 2000, Ramamurti, 2000, Shleifer, 1997, Sharp and Salter, 1997).

1.2.4 Managing A Paradigm Shift

The thesis will also provide a case study of an industry managing change on a major scale. As has been noted earlier, the literature on privatisation has not explored micro level managerial issues. Neither has there been a comprehensive case analysis of the impact of major change on a formerly state owned industry. This project will be able to comment upon, and so expand the fund of knowledge in relation to major change, and its effects upon companies⁷. It will also be possible, given the changes in ownership, to comment upon the place of the UK ESI within the wider global electricity industry, and to speculate upon the future direction of that industry.

1.3 Objectives of the Study

The project has four key objectives as well as a supporting objective, the pursuit of which is contingent upon the outcomes of the earlier objectives. The four key and one supporting objectives are as follows:

Key Objective One

To identify viable corporate and business levels strategies within a regulated environment. This objective involves understanding the nature of the strategies developed. It also involves understanding (a) how different corporate and business levels strategies can be combined to provide an effective overall strategy, and (b) the relationship between an organisation's strategy and its structure.

7

The research does not aim to examine the impact upon consumers, as other authors have already begun this process. The views of such authors have been considered in Section 4.6.1. This failure to explore this issue may be considered a limitation on the impact of this research, and this issue will be returned to in Section 1.6.3.

Many authors, as remarked upon above, have suggested portfolio's of corporate and business level strategic options which they suggest are available to all businesses operating in competitive environments. Objective One seeks to use these existing portfolio's to identify the content of corporate and business level strategies developed by the RECs since privatisation. In so doing, the achievement of this objective would enable the author to report upon the precise content of strategy among companies which have had to strategically reorient themselves.

Key Objective Two

To identify the factors driving the strategic direction of the RECs, as identified in Objective One, and to understand the nature of their impacts.

Authors have identified a wide variety of factors which influence and shape corporate and business strategy decisions. The aim of this objective is to determine whether the factors which drive strategy in a regulated environment are the same or different from those which shape decisions in a traditionally competitive environment. In so doing, the author seeks to comment upon the structural differences between a traditional competitive environment and a regulated environment, and the impact that any such differences will have upon strategic options and directions.

Key Objective Three

An evaluation of the effectiveness of existing generic management typologies in explaining the strategic content identified in Objective One.

The difficulties of employing existing management concepts, typologies and systems of classification in a non-traditional regulated environment have been raised above. The aim of this objective is to formally address these difficulties and contribute to the debate by the use of examples drawn from the ESI.

Key Objective Four

To elaborate a set of hypotheses that capture the key elements of the outcomes of the above objectives, for application in future research.

This research is exploratory, and undertaken prior to a wider exploration of similar themes across a broader audience of companies who have experienced similar industrial transformations. The objective sets out, by developing a number of propositions which will be validated during this research, to establish viable hypotheses which will form the basis for future empirical research. Therefore within Key Objective Four are the

following two core 'propositions', which will be expanded inductively as research is undertaken in pursuit of Objectives One and Two:

- ▶ *Core Proposition One: that companies will adopt different approaches to achieve their strategic objectives; and*
- ▶ *Core Proposition Two: that different influences will be felt by the different companies during this process.*

In establishing these core propositions, the author is not aiming, initially at least, to suggest a relationship between outcomes resulting from the expansion of Core Proposition One and Core Proposition Two. To this extent these propositions will be developed independently, with each aiming to fulfil self contained objectives of extending understanding in each area, and with no immediate objective of achieving some form of correlation. However, correlation of this kind is a longer term objective, and the ground will be prepared so that an attempt can be made once the variables related to each core proposition have been thoroughly reviewed, and are more definitely understood.

Supporting Objective One

Subject to the outcome of Key Objective Three, to make observations about the use of generic strategies in a regulated environment, and to suggest any amendments which may be necessary to amend established approaches to improve their utility for the classification of regulated industries.

The weight of evidence derived from the existing literature would suggest that established approaches would not be appropriate to the task of adequately describing and understanding the change brought about by strategic reorientation. If this is the case, the aim of this supporting objective is to suggest any amendments the author believes to be necessary to modify certain existing approaches to take into account the difficulties revealed by the earlier reported research.

The impact of the achievement of the four principal and one supporting objectives will now be considered in relation to the study's contribution to knowledge.

1.4 The Study's Contribution to Knowledge

The study's principal contribution to knowledge rests with an attempt to overcome the deficiency in the literature identified in Section 1.1. The privatised industries of the UK are of considerable strategic importance, and as such an understanding of the process of strategic choice, and the availability of viable strategic options open to the companies

created by the privatisation should arguably have commanded greater attention from management theorists. The recent collapse of the new electricity and gas supply company Independent Energy (Gribbon, 2000), and the continuing consolidation of the industry (Ghobadian and Viney, 2000, James *et al*, 2001), show that even after ten years of competition, there is still uncertainty over the viability of certain strategic approaches, and indeed arguably the suitability of the industry as a whole for the experience of competition. This analysis should enable a judgement to be made as to whether 'effective' organisational structures and processes have developed within this industry⁸, and allow for the identification of the content.

In understanding what strategies have developed in the industry, it is also important to consider why. The study's second objective therefore will contribute towards the body of existing knowledge on the key drivers of corporate strategy. In particular, this section compares the differing views of strategic drivers evident between the main concepts of strategy making within the firm: the competitive forces and resource based views.

The management of change from SOEs to privatised entities has also become a major issue within the literature in recent years. The UK's position as a 'test bed' for regulatory and industrial reform provides the ESI with the status of a global laboratory, and as such the findings produced by this research will contribute further to an improved understanding of what is a viable competitive strategy for recently privatised companies. As has been noted previously, this is especially important as the ESI was the first industry to have competition forced upon it at privatisation.

Finally, the research will provide an opportunity to comment upon the suitability and effectiveness of existing models of strategic evaluation. As has been noted, it has long been argued that such models, which claim universal applicability, struggle to be effective in industries which do not conform to the norm of a free market and exhibit unfettered competition. By exploring this question, and suggesting possible amendments to guide future research this project may make a meaningful contribution to a resolution of such long standing issues.

1.5 Outline of Research Methodology

This section outlines briefly the methodology by which the objectives established in

8

An actual assessment of this issue and determination of the question of 'success' is beyond the scope of this research, and will be left to future research.

Section 1.3 of this chapter are to be achieved⁹. In particular, the decision to pursue an inductive approach is explained, along with the decision to use a phenomenological research design based upon the use of a case studies derived from in-depth interviews. The section also features a brief summary of the key elements of the thesis.

1.5.1 An Inductive Approach

The research adopts a broadly inductive approach in the preliminary phase. Inductive approaches have been defined by Gill and Johnson as involving “moving from a ‘plane’ of observation of the empirical world to the construction of explanations and theories about what has been observed” (Gill and Johnson, 1991, p.33). Arguably, inductive approaches have been the cornerstone of management research since the ground breaking inductive studies conducted by authors such as Chandler (1962), and Learned *et al*, (1965). Inductive approaches focus upon exploring available information but without identifying a specific objective as would be the case in a deductive approach. The focus of this research is, initially at least, to review behaviour based upon an analysis of the content of each company’s strategies, and draw conclusions in respect of what has been observed, and then seek to explain the observation. This is not to suggest that an inductive approach starts from a position of ignorance about the area to be researched, as a framework for research has been designed using existing systems of classification. It is just that an inductive approach does not set out with the express objective of testing a specific theory. As such, this characterises the research contained in this thesis as being predominantly exploratory which is an accurate representation of its principal objectives.

Chapter’s Five to Seven witness the preliminary stage of the research, which is undertaken using both content analysis and other forms of textual analysis. The sources of information and opinions developed during these chapters are subject to a process of triangulation throughout. At the end of this process of textual analysis, a series of propositions about the content of REC strategies and their drivers will be developed, and expanded upon in Chapter Eight. The process of exploring these propositions will begin with the field research chapters, Chapter’s Nine to Eleven, which feature in-depth case studies of three RECs, and continue into Chapter Twelve. As such, the research process pursued within this project is initially inductive, although the inductive stage is informed by existing knowledge of both the industry and of existing management models, and concludes with a deductive investigation of the propositions developed earlier.

9

The research methodology, process and design is discussed in detail in Chapter Three.

The systematic framework used in the research is drawn from the management literature. In Chapter Two, the issue of what constitutes a strategy is explored, and a framework of 'Grand Strategies' is presented (Pearce and Robinson, 1994, p.223). Grand strategies are defined as providing basic direction for strategic actions: "they are the basis of co-ordinated and sustained efforts directed toward achieving long-term business objectives" (Pearce and Robinson, 1994, p.223), or domain selection (Bourgeois, 1996). They therefore present a framework within which all possible variants of corporate strategy are present, and which can therefore be used as a 'checklist' when examining the observable activity of the sample companies. The list of grand strategies is presented in full, and explained, in Section 2.5.4. The framework also utilises business level systems of classification, as presented by authors such as Porter (1980 and Section 2.5.5.2) and Chrisman *et al* (1988, and Section 2.5.5.4), used for domain navigation (Bourgeois, 1996), as well as organisational typologies like that suggested by Miles and Snow (1978, 1986, 1992).

1.5.2 Use of a Qualitative Approach

As Chapter Three explains, there is still some debate as to the relative validity of social science research undertaken using non-quantitative methods. An increasingly strong body of the literature now argues that such research is valid (Yin, 1994), and indeed desirable (Hoskisson *et al*, 1999, p.417), but the debate is ongoing. Essentially this debate centres upon the suitability of alternate available methods to adequately analyse and explain particular circumstances. It would appear from an observation of this debate that certain approaches are argued to lend themselves to the investigation of particular issues. For instance, the benefits from the use of qualitative approaches in looking at particularly complex organisational issues is argued (Yin, 1994). In other words, certain approaches are appropriate in certain circumstances, and arguably not in others. The author takes the view that a qualitative approach is the most appropriate to adopt in pursuit of the objectives of this thesis. This view is based upon two factors.

The first factor concerns the complexity of this research's objectives, and the difficulty of pursuing these objectives using quantitative instruments. As the preceding section on the objectives of the research makes clear, this thesis seeks to understand which strategies a variety of companies came to adopt, and the reasons why. Implicit within this investigation is an awareness of an extremely complex interrelationship between the internal and external factors driving the strategy process. The author takes the view that a clear understanding of this interrelationship cannot be forthcoming from the use of quantitative instruments, as the questions necessary to untangle this relationship cannot be effectively reduced to a form that can be delivered by, for example, a questionnaire.

Largely, this concern rests upon the more persistent criticisms of quantitative methods, and their prospective strengths and weaknesses. Quantitative approaches are of particular virtue in areas of study requiring an understanding of the behaviour of large sample populations, and the testing of the relationship between variables through the use of statistical analysis. Proponents of quantitative methods argue that they are more inherently scientific than other possible methods, providing the necessary preparatory conditions have been fulfilled. However, there are inevitably areas of concern in the use of quantitative approaches. The validity of the use of questionnaires depends strongly upon the validity of the design, and the representativeness of the sample population (Silverman, 1993, p.10). Additionally, quantitative approaches have been criticised for not taking full account of the social context within which they occur (Kirk and Miller, 1986).

In comparison, qualitative methods possess a variety of virtues. Principally they offer a means of understanding a phenomena through observation and description, with the ultimate aim of generating hypothesis. This reflects a general concern, held by proponents of qualitative approaches, that data should be gathered in a naturalistic environment, ensuring that when a set of hypotheses is developed, they reflect an observed, rather than a subjective, reality. Qualitative methods therefore seek to establish more than just a relationship between variables, a prescribed aim of quantitative approaches, through the achievement of a greater perception of the mechanisms or processes which affect the variables under study (Hammersley and Atkinson, 1983, p.20).

The second factor concerns the size of the sample available to the researcher. There were only twelve companies within the REC sector at privatisation. This small potential sample size could be seen as mitigating against the use of a quantitative approach. Statisticians such as Lehman (1999) have noted that analysis of samples of cases of less than thirty do not produce reliable conclusions from the range of 'classical' statistical tests. Even the use of more qualitatively based statistical approaches such as those employing Bayesian methods (Gilks *et al*, 1996) which allow for the analysis of smaller sample sizes, would view a maximum sample of twelve as too low for their application, even allowing for the remote possibility of achieving an 100% response rate. It would of course have been possible to distribute a questionnaire to a variety of potential respondents within an organisation, achieving a stratified sample, and in doing so achieve a more significant sample population, but given the nature of the first factor identified immediately above this option was not pursued. It does, however, remain a very real option for the proposed extension of this research into its confirmatory stage, following the completion of this exploratory stage.

This second factor, allied to the belief that a case-based approach was more appropriate, conclusively influenced the methodology adopted. Of the method employed itself, the following observations are made. To approximate the scientific rigour usually associated with quantitative approaches the secondary and primary data generated by the project was collected and analysed using a formal research framework. Within that process recognised techniques such as content analysis were employed where appropriate, although in-depth interviews were also deployed to provide the necessary depth and detail. In addition, a process of triangulation occurred to assure the validity of the findings. This process of triangulation occurred at both the preliminary and field stages of the research, as discussed at length in Section 3.2.2. The research process deployed is explored at length in Section's 3.2 to 3.6.

1.5.2.1 Details of Primary Data Collection

During the research project, a number of face-to-face interviews were conducted with managers from both UK and US electricity companies, and regulatory offices. Due to assurances of confidentiality offered to each interviewee no names will be revealed in this thesis. However, it is necessary for the purposes of referencing to indicate what material was presented to the author by primary data sources. The following schedule (Figure 1.1) provides details of the companies and job titles of interviewees, as well as the timing and location of each interview. Code numbers will be allocated to each interview This schedule is presented in two columns: UK and US, and ownership links noted.

1.6 Scope and Limitations of the Study

Inevitably in a project of this kind, the author is aware of a number of limitations to which the attention of readers is necessarily drawn. This section addresses this need, and suggests some of the actions taken by the author to mitigate against the impact of these limitations.

1.6.1 Limitations of a Case Based Approach

The first possible limitation to be considered relates to the chosen method of data collection. As noted in Section 1.4 of this chapter, this research uses a design based upon a case approach utilising in-depth interviews. As will be discussed in Chapter Three, case based approaches are increasingly cited as being of real value in social science research, due to the degree of detail they provide allied to the opportunity they offer to understand complex social phenomena. Proponents argue that achieving this degree of detail and understanding is not always possible with other research methods (Yin, 1994).

Figure 1.1: Schedule of Interviews Conducted in Support of Research

<i>United Kingdom Companies/Authorities</i>	<i>United States Companies/Authorities</i>
Regulatory Bodies OFFER: , Birmingham, October 1999 (UK001)	Regulatory Bodies FERC: , Office of Economic Policy, Washington, April 1997 (US001)
Case Study Companies Eastern Group: , London, October 1995 (UK002) , London, March 1998 (UK003), and London, April 1998 (UK004) , Ipswich, June 1998, (UK005) , EPET, Ipswich, June 1998, (UK006) Seaboard: , Crawley, February 1997 (UK007), Crawley, March 1997 (UK008), and Crawley, June 1997 (UK009) Crawley, June 1997 (UK010) , Crawley, June 1997 (UK011) , Crawley, August 1997 (UK012) SWEB: , Bristol, February 2000 (UK013)	Case Study Companies CSW (owner of Seaboard): , Dallas, October 1996 (US002) Southern Company (owner of SWEB): , North America Group, Atlanta, November 1999 (US003)
Exploratory (Non case study) Interviews Southern Electric: , Maidenhead, June 1998 (UK014) Midlands Electricity: , Birmingham, June 1997 (UK015) Norweb: , London, June 1997 (UK016)	Exploratory (Non case study) Interviews CINergy (then part owner of Midlands): , International Business Development, Indianapolis, October 1996 (US004) Duke Power: , Charlotte, October 1996 (US005) Ohio Edison: , Akron, April 1997, (US006) Pacific Gas and Electric: , San Francisco, May 1997 (US007) , San Francisco, May 1997 (US008)

Despite this growing appreciation of the use of cases, authors have identified a variety of potential limitations to their use (Moser and Kalton, 1983; Yin, 1994). These are reviewed here and their impact upon the scope and representativeness of this project assessed.

The first concern with the use of case studies is that of the potential for bias or inaccuracy in the responses of the interviewees. This is a valid concern, and while it is not possible to be totally assured of the validity of the responses received, it is hoped that certain factors can mitigate this anxiety. The research project is fundamentally seeking to identify organisational characteristics, many of which may be verifiable from existing published sources of company information. In seeking to interview senior managers, the research aims to understand more of the context in which these verifiable events occurred. Therefore, depth is provided to information which has already been gathered externally for the purposes of verification. This, it is here argued, reduces the chances of bias and inaccuracy, especially when further measures employed in this research are taken into consideration. The first of these concerns the timing of the research. Much of what was discussed in interviews was *post hoc*, and hence an historical analysis with little impact upon current commercial considerations. Consequently there would be little reason for the interviewee to deliberately mislead or misinterpret¹⁰. Secondly, that strict guarantees of confidentiality were provided as a matter of course to all interviewees, in the hope that this would encourage a greater degree of openness and candour. Thirdly, when allowed access to an organisation, the researcher actively sought the views of a cross section of managers within that organisation, thus allowing the opportunity for verification to occur internally throughout the interview process.

The second possible limitation, closely related to the first, is that of verification. If it is accepted that the findings of case based approaches may be questioned, then the significance of third-party verification is clearly crucial. Case based approaches are perceived to be difficult to validate by replication, although there is a growing view that there exist circumstances where this valid concern is of a lesser significance¹¹. The limitation presented by verification is of significance in this project. Given the guarantees of confidentiality provided to participants, it will not be possible to directly verify the data provided *in camera*, although all of the secondary sourced data already within the

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Although of course such retrospective analysis does allow the interviewee the opportunity to present subjective opinions.

¹¹

As will be discussed in Chapter Three.

public domain used will be verifiable. As mentioned earlier, this limitation should not detract overly from the fundamental objectives of the research as the primary research data was sought in part to verify observable phenomena: that is to say, the primary data was intended in part to assist in the verification of the classifications of corporate strategies identified by the analysis of secondary sourced textual data. One of the areas of future research interest identified in the project suggests an application of the approach used here to other recently privatised industries, which would provide a degree of verification.

The third possible limitation is identified as a potential outcome of a case based approach, and concerns the tendency for such approaches to be over long, and lacking in focus due to a propensity to delve into unnecessary depth. Inevitably, this limitation is a question of degree. While depth was lauded as a valuable feature of a case approach earlier, it may also prove a handicap. The extent of that handicap, or strength, will be entirely dependent upon the particular case (Yin, 1994, p.10). To reduce the potential damage offered by this limitation a research framework was employed during the primary data collection, to ensure that while additional data may have been collected, the reporting of the data would be wholly systematic. As such, the field study cases (Chapter's Nine to Eleven) all feature a framework which is principally aimed at resolving issues identified in the earlier part of the thesis. They do not engage in a general discussion.

A final limitation offered by the chosen method of data collection relates to the question of access. This is a two fold concern. Firstly, securing access initially to: the appropriate companies in the requisite number; and the appropriate individuals within these companies. Secondly, securing access to the information held by the company or individual which may not necessarily be available for discussion or reporting. In respect of the first concern, the project needed to balance the competing demands of the level of appropriate detail with the constraints of time and likely access. While information derived from all of the companies was preferable, the likelihood of achieving access to all twelve companies was small. Additionally, the time required to conduct twelve in-depth cases may not have been available. Moreover even if it had been possible, the demands of the process may arguably have actively diminished the quality of the outcomes. By trying to speak to too many people, the opportunity to develop in-depth understanding of a smaller number of cases may have been lost. Hence, the decision to pursue a maximum of three or four cases.

During the period prior to the beginning of the study¹², and the start of the field stage of the research in 1997, the industry changed significantly, and a number of patterns of behaviour began to emerge. As a consequence of these developing patterns, the author developed a list of companies that would be approached in order of their potential significance to the success of the research. Principally, the author was seeking a representative sample from within the industry. To this end the following three groups of companies were identified and representatives of each targeted: firstly, those companies adopting aggressive market development and leading the industry (East Midlands, Norweb, Eastern, Yorkshire); secondly, those pursuing a more traditional REC approach and occupying the middle of the industry (Midlands, London, Seeboard, Southern, Northern); and finally, those smaller RECs perceived to be following the industry (SWALEC, SWEB, Manweb). Ultimately, one REC from each group agreed to participate in in-depth case studies, and three others provided background information as part of the on-going exploratory interview process.

Another concern was that within the case study companies access was sometimes more limited than the researcher would have preferred. This issue, while a limitation, has not in the author's opinion damaged the validity of the research. This limitation does mean that caution is required to be exercised with the findings and it will only be possible to infer patterns of behaviour in so far as the companies that did not participate are concerned. However, as the case studies were predominantly being used to validate observations made in the preliminary research; in other words to add extra depth to propositions developed using verifiable data, this concern is not as serious as if the case studies were the only analytical process the research presented. The second concern, that interviewees would be less than forthcoming with the required information, has been addressed earlier.

1.6.2 Limitations of a Single Industry Study

A second limitation is the question of whether a single industry study is of significance within the wider business community. Within the literature, there is considerable discussion of the virtues of a single industry study, as compared to studies which encompass a wider range of industry sectors (Miles and Snow, 1978; Ketchen *et al*, 1993 among others). The advantages of a single industry study include the degree to which understanding can be achieved, based upon a full awareness of the dominant factors at

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The project commenced in October 1994, just as the second wave of competition and the first wave of mergers and acquisitions was sweeping the industry. See Chapter Four, Section 4.5 for a full chronology.

work within that industry. A single industry study is more homogeneous, and so provides a clear guarantee that like is being compared with like. In general, criticisms of a single industry study suggest that the findings can only be said to be relevant to that industry alone, without the due process of validation being conducted in future research. The question of the future direction of the research is addressed in Section 13.6.

1.6.3 Studying the Electricity Industry

A third limitation results from the industry chosen for study and the widespread changes in ownership that have occurred since the research began, which have actively conspired to change its original focus. However, there has been a positive outcome of this fluctuation, as it has opened up an arguably much wider field of study. Indeed, as a factor of the increasing globalization of the industry, this widespread change has arguably made the need for study even greater than originally anticipated. There has not been a consistent period of stability within the industry since the expiration of the Government's golden share in each company on 1 April 1995. As a result, each of the twelve original companies has been bought or merged at least once. This means developing an understanding of patterns of behaviour longitudinally over the period has not proved possible. However, as already noted, the change in the prevailing conditions in 1995 did produce a period of intense activity, and consequently a proliferation of change. This change has witnessed a wider range of variation on behaviour, and a wider selection of examples to identify and analyse. Despite, therefore, the constant change making the initial objectives of the research difficult to obtain, the change has presented an opportunity to broaden the scope of the research and to comment upon a wider context. The volatility therefore has widened the potential of this research to make a meaningful contribution.

One major limitation has been the ability to assess success. Many of the new owners of the RECs have been from overseas. Consequently, the amount of financial data, and indeed financial analysis, that was available between 1990 and 1995 was not available in the latter part of this period. This makes any judgement of performance based on financial measures virtually impossible after 1995. Therefore, when the research identifies distinct strategies emerging from the industry, it is not possible to adjudge 'success' in a normal fashion, by comparing like with like across the industry, and by employing a variety of financial ratios. This explains the lack of any focus upon aspects such as these within the research. Work of this nature is being undertaken elsewhere (see Parker, 1995, Martin and Parker, 1997), and it is the author's intention to attempt to marry that work on organisational success with the outcomes of this research at a later date.

1.6.4 Use of Generic Strategies

A final limitation relates to the use of generic business strategies. As part of Objective Three of this thesis, it is intended to assess the classifications evolving from the ESI on the basis of existing generic business strategy models. However, these existing models themselves have been subject to concern in relation to their application which actively limit the validity of the pursuit of Objective Three, and Supporting Objective One if that supporting objective is pursued. The literature in relation to the potential deficiencies of generic strategies are considered at length in Section 2.5. However, it is important here to highlight some of the deficiencies that may actively limit this research project, in respect of the general validity of generic business strategies.

The principal concern is that such approaches contain inherent weakness. Weick argues that it is not possible for a model "to be simultaneously general, accurate, and simple" (Weick, 1979, p.35), and that its use will inevitably produce "trivial, inconclusive research" (Weick, 1979, p.36). Of course the converse of this argument is to attempt to study an infinite number of unique strategies (Chandler, 1962), so the author argues that some form of acceptable generalisation is a necessity, a view which enjoys widespread support within the literature. In order to overcome such criticism and achieve an acceptable generalisation, it is necessary at all times to acknowledge the limitations of generic approaches, and not to overstate their significance. Therefore throughout the thesis the contribution that generic approaches make, in providing alternative solutions to a variety of problems that face an organisation, is stressed. However, at the same time an acknowledgement is made of the necessity for companies to develop and implement unique solutions to their problems, rather than simply accepting any of the solutions provided by generic strategies. Therefore the potential difficulty is overcome by an acknowledgement that generic strategies should be viewed as guidelines which are instructive, rather than prescriptive.

1.6.5 Focus upon Strategic Content

The thesis adopts a focus upon the content of organisational strategy, and upon the drivers which influence the development of content. It does not focus upon the question of process. The author is mindful of Mintzberg's (1973a, 1990b) contention that the interrelationship of content and process is so significant that any consideration of either in the absence of the other provides only a limited perspective, and also notes Hinterhuber and Popp's (1992) view that a consideration of one without the other is impossible. In answer to this possible limitation, the author argues that the chosen method of data collection and analysis in the preliminary stage; content analysis of textual data, precludes an assessment of strategic process, although more emphasis upon process - for example

the behaviour and priorities of leaders - is presented within the field work sections of the work. The extension of the current work in future research would be expected to include a focus upon this key issue.

1.7 Structure of the Report

This thesis is comprised of thirteen chapters, which can be identified as falling into four distinct segments. A breakdown of these segments, and their corresponding chapters is now presented, and readers are referred to the map of the process presented at Figure 1.2:

Segment One: Establishing the Objectives and Methodology

Chapter One: Introduction

Chapter Two: Literature Survey

Chapter Three: Methodology

Chapter Four: Conceptual Background and Industry Context

This chapter has introduced the study through a brief examination of the relevant literature, has set out the aims and objectives of the project, and provided a brief explanation of the research methodology. Chapter Two presents a systematic review of the management literature in relation to the concept of strategy, differing views of strategy and the firm, different drivers of strategy, and the nature of generic approaches to strategy. Chapter Three explores the methodology employed within this project, in respect to the chosen research process and the research design. Chapter Four presents a brief reprise of the history of privatisation in the UK, and a more detailed exploration of the aims, process and unique aspects of the privatisation of the ESI.

Segment Two: Undertaking Analysis, Stage One

Chapter Five: The Northern Industrial RECs

Chapter Six: The Midland and Agricultural RECs

Chapter Seven: The Southern Suburban RECs

Chapter Eight: Mapping the Industry: Concluding the Preliminary Stage

In Chapters Five, Six and Seven of this segment, textual data is analysed in pursuit of Objective's One and Two of this thesis. The content of each company's strategy is explored, analysed, and conclusions are drawn. This investigation is presented in four sub-samples, representing the geographical breakdown of the RECs, and additionally exploring the impact of a company's location upon its strategy. The conclusions drawn are reviewed in Chapter Eight, in preparation for a more detailed analysis through extended case studies.

Segment Three: Undertaking Analysis, Stage Two

Chapter Nine: Case Study of Eastern Group

Chapter Ten: Case Study of Seeboard

Chapter Eleven: Case Study of SWEB

In each of the chapters of this segment, primary data derived from in-depth interviews is analysed in pursuit of the ten propositions developed in Chapter Eight. Data has been collected in a series of in-depth interviews in three of the RECs.

Segment Four: Analysis and Conclusions

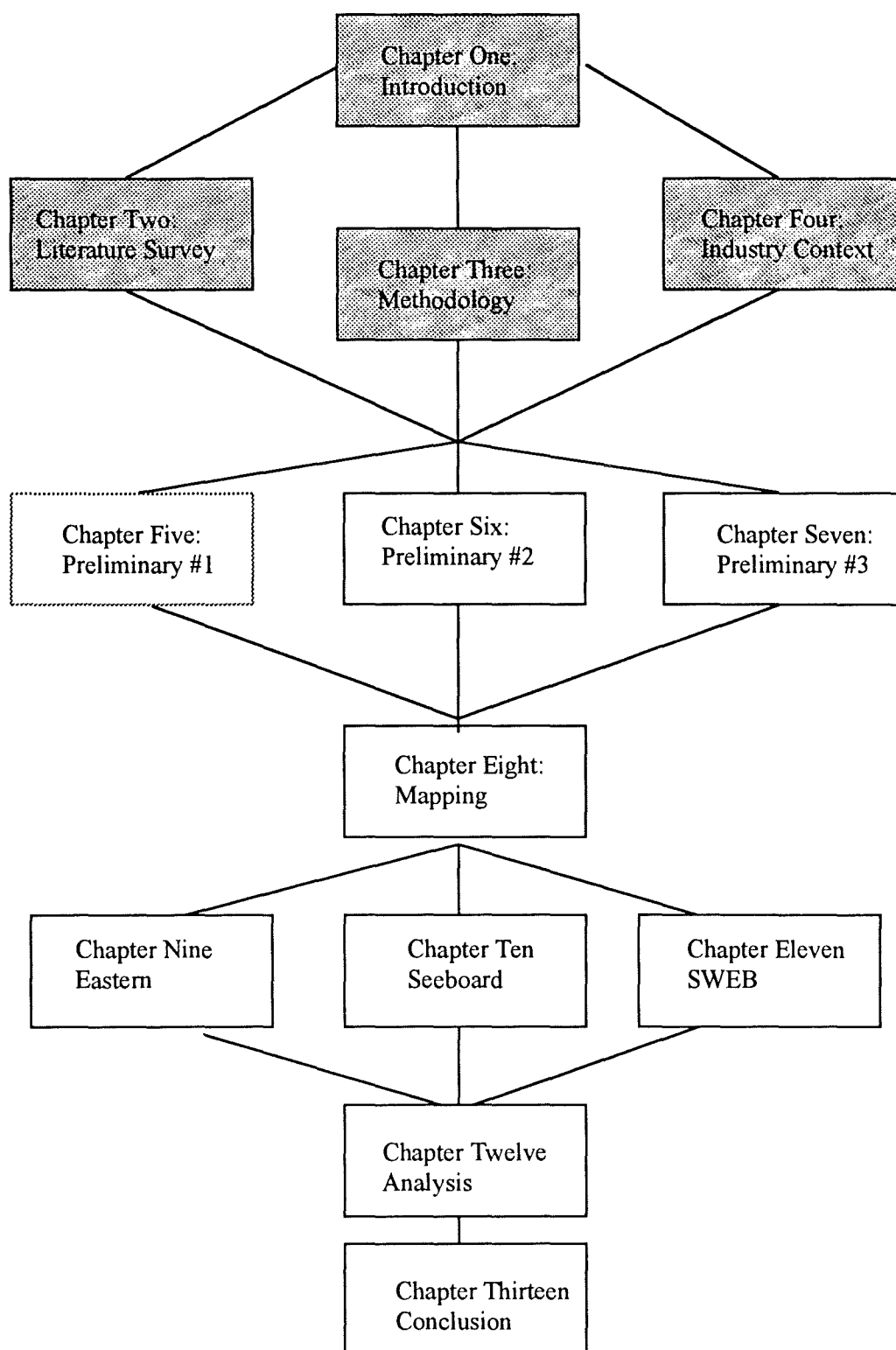
Chapter Twelve: Discussions, Review and Impact upon Generic Strategies

Chapter Thirteen: Summary and Conclusions

In this segment, the preceding analysis is summarised, and a map of the industry drawn. This includes the development of a classification for each of the RECs. The findings of the research are compared against existing generic management approaches, and amendments suggested and justified. The project is summarised, contributions made are underlined and suggestions for future research outlined.

Note: All references to the job title of managers interviewed for this research have been removed from this version of the thesis, which will be in the public domain. This has been done in order to fulfil obligations of confidentiality provided to each manager interviewed. Similarly, the interviews contained in Appendix Two have also been removed.

Figure 1.2: A Map of the Thesis



2.0 Introduction

This chapter seeks to explore the current management literature in relation to the question of the content of corporate and business strategy. Therefore, the chapter explores different concepts of strategy in relation to the firm, identifies and examines possible drivers of corporate and business strategy, and addresses other significant issues, like structure, which impinge upon the debate. Principally, however, this chapter considers systems of classification and the potential they offer to identify, group and measure the content of corporate and business strategy. This focus, and in particular the decision to explore these issues at some length, is justified on the basis of the key aims and objectives of the research. These aims, as made clear in the preceding chapter involved identifying and understanding the drivers of strategic content in the selected industry sample, and also examining the appropriateness of existing systems of classification to describe what is observed in the case study industry.

Consequently, the following are sought from this review:

- ▶ an understanding of the concept of strategy;
- ▶ an appreciation of theories relating to the factors influencing strategy;
- ▶ an awareness of the means of classifying strategy and identifying strategic content; and
- ▶ an assessment of predictive management models and theories.

The strategy literature is extensive, and in order to do justice to the key issues related to this research, the author has inevitably had to be selective in decisions regarding: (a) which areas of the literature to explore, and (b) the depth of that exploration. Further explanation of the decisions taken follow throughout this chapter.

To achieve its objectives, the chapter is structured in five sections. In Section 2.1 a debate concerning the nature of strategy is presented, which addresses the questions of what strategy is, why various notable writers have adopted distinctly different views as to the nature of strategy, and why the concept itself is of importance. Section 2.2 begins the discussion of what influences firms strategy decisions by reference to competing concepts of how strategy should be made. This section therefore presents a discussion of the features and relative merits of two key models of strategy: the 'competitive forces'

approach championed by authors such as Porter (1980) and the resource based approach championed by authors such as Grant (1991). Section 2.2 also draws attention to the key drivers behind corporate and business strategy, and identifies and discusses these drivers relative to the competing views discussed earlier. Leadership is inevitably a key driver, recognised by any competing theory of strategy making, and this area of the literature is reviewed in Section 2.3, while Section 2.4 discusses the issue of the relationship between strategy and structure.

Section 2.5 is the most important section of this chapter, reflected by the detail of the review and its length relative to other sections. This degree of attention is justified by the section's core importance to the research, which can be demonstrated by identifying five key tasks that this review of systems of classification performs. The section, therefore:

- (i) provides an understanding of the various systems of classification and their aims and objectives, explores the vocabulary of classification, and seeks an understanding of the methodological detail underpinning the use of such systems. It also clarifies the particular aims and objectives of the various differing systems discussed;
- (ii) explores the views of writers with respect to the benefits and difficulties that exist with the use of systems of classification;
- (iii) provides a distinction between the different levels of strategic decision making and the aims and objectives of models designed for these different levels within a firm;
- (iv) provides key analytical frameworks and concepts which will be employed throughout the research; and
- (v) finally provides evidence of gaps in the management literature with respect to systems of classification, which helps to justify a need for the research, and helps to qualify the contribution the research aims to make.

Section 2.6 completes the chapter with concluding remarks. This is an important section, as it clarifies: the gaps identified by the author in the existing literature, and hence the need for the research; and the existing management concepts that will be used to shape the collection and analysis of data throughout the remainder of the research. It also identifies any amendments to existing concepts that the author believes appropriate and wishes to raise as part of the research's continuing objectives.

As the above review of the structure shows, this chapter performs a number of roles of importance within the thesis. It establishes the area of management where the research is located, and also establishes the areas of the general management literature within which

the project will seek to make a contribution. In addition, the review provides concepts and frameworks of analysis which will be applied throughout the research. The chapter is, however, only one part of the review of relevant literature. A second literature review chapter, presenting the context within the research has been undertaken is presented in Chapter Four. This provides the reader with an analysis of the development of privatisation, and the origins of the companies which form the centre of this investigation.

2.1 The Concept of Strategy

This section aims to provide an understanding of the concept of strategy in a business setting to inform this research, and will be accomplished by means of an examination of the views of a selection of key management writers of the last four decades. The section aims to understand why these writers have adopted sometimes contrary views as to the scope of the concept of strategy. The section also considers the differing perspectives of writers with respect to the question of whether strategy is prescriptive or emergent, which follows on from this discussion.

2.1.1 Strategy Defined

There still exists within the management literature considerable confusion over what exactly is meant by the word 'Strategy'. Commonly writers on business strategy note the derivation of the word, and its constant association with matters military, but then proceed to apply definitions which often confuse 'Strategy' with the concept of 'Tactics', or which seek to encapsulate both of these concepts in one term. In many texts, the word 'Strategy' is used to communicate the notion of a process¹, rather than that suggested by a literal definition which is much closer to a plan².

To clarify this question and to provide a literal definition, the author turns to the Oxford English Dictionary (1933, p.1087). In this edition, the noun 'strategy' is defined as "the art of a commander-in-chief; the art of projecting and directing the larger military movements and operations of a campaign - usually distinguished from tactics, which is the art of handling forces in battle, or in the immediate presence of the enemy". In the same volume, a key distinction is made between 'strategy' and 'tactics', in that the former is divided from the latter by the act of *contact*, originally with an enemy but in a business

¹

'Process' defined as "a series of actions or events; a sequence of operations or changes undergone" (Chambers English Dictionary, 1997, p.857)

²

'Plan' defined as "a scheme for accomplishing a purpose; an intended method" (Chambers English Dictionary, 1997 p.819)

sense by the engagement and operationalisation of the strategy.

How then does this literal definition compare to the many provided by writers talking about 'strategy' in the management, rather than military, arena? Table 2.1 exhibits the definitions presented by a variety of highly regarded management writers over the past four decades.

Table 2.1: Definitions of Strategy

Peter Drucker (1954, p.58)	"A business must be managed by setting objectives for it. These objectives must be set according to what is right and desirable for the enterprise. They must not be based on the expedient or on adaptation to the economic tides..... <i>(and while detours are often necessary)</i> setting objectives enables a business to get where it should be going rather than be the plaything of weather, winds and accidents"
Alfred Chandler (1962, p.13)	"The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals"
Igor Ansoff (1965, p.104)	"Objectives represent the ends which the firm is seeking to attain, while strategy is the means to these ends. Strategy is an elusive and sometimes abstract concept"
Kenneth Andrews (1971, p.28)	"Strategy is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is not to be"
Jay Galbraith and Daniel Nathanson (1978, p.3)	"Strategy is a specific action, usually but not always accompanied by the development of resources, to achieve an objective decided upon in strategic planning"
Charles Hofer and Dan Schendal (1978, p.25)	"The fundamental pattern of present and planned resource deployments and environmental interaction that indicates how an organisation will achieve its objectives"
Raymond Miles and Charles Snow (1978, p.7)	"Strategy is more a pattern or stream of major and minor decisions about an organisation's possible future domains. Further, these decisions take on meaning only as they are implemented through the organization's structure and processes. In other words, an organization's strategy can best be inferred from its behaviour, though one can conceptually associate strategy with intent and structure with action"
James Brian Quinn (1980, p.7)	"A Strategy is the pattern or plan that integrates an organisation's major goals, policies and action sequences into a cohesive whole. A well-formulated strategy helps marshal and allocate an organisation's resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipating changes in the environment, and contingent moves by intelligent opponents"
Michael Porter (1980, p.xvi)	"Developing a competitive strategy is developing a broad formula for how business is going to compete, what its goals should be, and what policies will be needed to carry out those goals"

William Glueck (1980, p.9)	"Strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved"
Kenichi Ohmae (1983, p.36)	"What business strategy is all about is, in a word, competitive advantage....the sole purpose of strategic planning is to enable a company to gain, as effectively as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way"
Lawrence Hrebiniak and William Joyce (1984, p.29)	"Strategy formulation is a decision process focussing on the development of long-term objectives and the alignment of organisational capabilities and environmental contingencies so as to obtain them"
Henry Mintzberg and James Waters (1985, p.257)	"Strategy is a pattern - specifically, a pattern in a stream of actions"
Gary Hamel and C.K. Prahalad (1994, p.160)	"Strategy as stretch is strategy by incrementalism to the extent that top management cannot predetermine every single step of the journey to the future. Strategy as stretch recognises the essential paradox that while leadership cannot be entirely planned for, neither does it happen in the absence of a clearly articulated and widely shared aspiration"
Robert Grant (1998, p.3)	"Strategy is not a detailed plan or program of instructions: it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or organization"

To distinguish between the various definitions of strategy, of which only a few are presented here, Mintzberg identified five main classifications, his Five Ps for Strategy (Mintzberg, 1987b). In order to illustrate the differences in views relating to strategy, this framework is employed here. The Five Ps are as follows: strategy as plan, ploy, pattern, position, and perspective.

2.1.1.1 Strategy as Plan

Mintzberg argues that for most people a strategy is a plan: a "consciously intended course of action, a guideline (or set of guidelines) to deal with a situation" (Mintzberg, 1987b, p.11). To associate strategy with planning is to revert very clearly to the original, military campaign definition associated with order and precision. Writers describing 'objectives' (Drucker, 1954, Chandler, 1962), or 'a means to an end' (Ansoff, 1965) suggesting a broad, long term and goal focussed approach would tend towards adopting a 'strategy as plan' approach. While adopting a plan is not synonymous with total rigidity, and indeed Drucker acknowledges that to reach objectives "detours may have to be made around obstacles" (Drucker, 1954, p.58), the importance of a plan in defining and identifying a final location is stressed. Planning approaches often consider the question

of resource allocation as part of the strategy process³, hence Glueck's "unified, comprehensive and integrated plan" (Glueck, 1980, p.9), or Hrebiniak and Joyce's "alignment of organisational capabilities and environmental contingencies" (Hrebiniak and Joyce, 1984, p.29) to obtain the strategic objective. To Mintzberg himself, the concept of strategy as plan is a dangerous one. Planning, he argues, is the outcome of an obsession with controlling risk and does not take into account the problems of using such an approach to manage risk in times that are increasingly turbulent (Mintzberg, 1993, p.33). His own preferred approach will be considered below.

2.1.1.2 Strategy as Ploy

Mintzberg notes that plans may be either general or specific, and further notes that an alternative sort of plan can be the ploy. A ploy is intended to mislead a competitor as to the real intentions of your strategy, by suggesting actions that you have no intention of following. The use of the strategy as ploy approach is clearly associated with writers seeking to emphasise the need for aggressive strategy making, and Mintzberg quotes Porter (1980) and Schelling (1980) as advocates of this philosophy. The definition provided by Galbraith and Nathanson (1978, p.3) also fits this perspective, as their argument that strategy should be seen as a specific action, following "an objective decided upon in strategic planning" suggests a ploy, or 'manoeuvre' designed to advance the company's intended objectives.

2.1.1.3 Strategy as Pattern

In discussing the concept of strategy as pattern, Mintzberg addresses the issue of relating process to strategy, and emphasising consistency. This is the definition of strategy that Mintzberg himself most favours and underpins the debate he himself has lead about the differences between intended and realised strategy, as discussed in Section 2.1.2. Mintzberg believes that for a strategy to be 'truly deliberate', that is to be realised in every detail, is "a tall order" (Mintzberg, 1996a, p.12). However, he further argues that for a strategy to be truly emergent, by which he means that the strategy would have developed with no stated intention and yet was still successful, was also unlikely. Mintzberg therefore takes the view that most strategies are neither truly prescriptive nor truly emergent, and that therefore strategies tend to fall somewhere in between, hence the view that strategy is a pattern. In this analysis Mintzberg is supported by Miles and Snow

3

Throughout this thesis, the following definition of 'strategy process' has been adopted: the strategy process involves all of the activities leading up to and supporting a choice of strategy (Huff and Reger, 1987; Ketchen *et al*, 1996). This process would include the process of crafting strategy (Mintzberg, 1987a), which involves environmental scanning, interpretation, and decision making.

(1978), Quinn (1980), and arguably Hamel and Prahalad (1994) whose 'strategy as stretch' concept is arguably guided incrementalism.

2.1.1.4 Strategy as Position

The concept underlying strategy as position holds that strategy should be seen as the means by which an organisation locates itself within its operating environment (Mintzberg, 1987b, p.15). Mintzberg points towards Hofer and Schendal's (1978) view of an organisation's correct interaction with its environment. This view of strategy is compatible with either the strategy as plan or strategy as position concepts previously described. It also is consistent for use in a highly competitive environment where more than one competitor may be evident.

2.1.1.5 Strategy as Perspective

Authors arguing for a strategy as perspective approach are taking a more philosophical view of the concept, wherein strategy is not narrowly defined like a plan, but more like a vision, as described by Grant: "it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or organization" (Grant, 1998, p.3). Strategy would therefore provide an organisation with its character (Selznick, 1957, p.47), its culture, or world view. Mintzberg argues that this definition is therefore a concept, as opposed to the more mechanistic definitions that have been discussed to date. He argues that the key issue of the strategy as perspective concept is that it is a shared view, providing the 'unifying theme' mentioned by Grant.

It is clear from these definitions, and from Mintzberg's analysis that many influential writers have remained mindful of the original meaning of the term, and adapted their definitions accordingly. However, others have sought to produce definitions with more meaning, by widening the concept and incorporating such additional factors as tactics, or culture. There seems to be a clear distinction between the views of writers who see strategy as an explicit activity: 'we make strategy, we plan, we allocate resources', and those who see strategy as more implicit: 'strategy informs, strategy moulds and shapes perspective'. Mintzberg expands upon this variation by suggesting a variety of different kinds of strategy, which fall within the boundaries of being neither prescriptive nor emergent, and these are presented at Table 2.2.

The table further reinforces the argument that a wide variation of possible definitions of strategy are in common usage within the management literature. The classifications provided by Mintzberg demonstrate some of the potential variations that can be witnessed in relation to how business actually make strategy, rather than the theory of strategy itself.

Table 2.2: Mintzberg's Various Kinds of Strategies, from Rather Deliberate to Mostly Emergent

<i>Planned Strategy</i>	Precise intentions are formulated and articulated by a central leadership, and backed up by formal controls to ensure their surprise-free implementation in an environment that is benign, controllable, or predictable; these strategies are highly deliberate
<i>Entrepreneurial Strategy</i>	Intentions exist as the personal, unarticulated vision of a single leader, and so are adaptable to new opportunities; the organisation is under the personal control of the leader and located in a protected niche in its environment; these strategies are relatively deliberate but can emerge
<i>Ideological Strategy</i>	Intentions exist as the collective vision of all members of the organisation, controlled through strong shared norms; the organisation is often proactive vis-a-vis its environment; these strategies are rather deliberate
<i>Umbrella Strategy</i>	A leadership in partial control of organizational actions defines strategic targets or boundaries within which others must act; as a result, strategies are partly deliberate and partly emergent; this strategy can also be called deliberately emergent, in that the leadership purposefully allows others the flexibility to manoeuvre and form patterns within these boundaries
<i>Process Strategy</i>	The leadership controls the process aspects of strategy, leaving the actual content of strategy to others; strategies are again partly deliberate and partly emergent, and deliberately emergent
<i>Disconnected Strategy</i>	Members or subunits loosely coupled to the rest of the organisation produce patterns in the streams of their own actions in the absence of, or in direct contradiction to the central or common intentions of the organisation at large; the strategies can be deliberate for those who make them
<i>Consensus Strategy</i>	Through mutual adjustment, various members converge on patterns that pervade the organisation in the absence of central or common intentions; these strategies are emergent in nature
<i>Imposed Strategy</i>	The external environment dictates patterns in actions, either through direct imposition or through implicitly preempting or bounding organisational choice; these strategies are organizationally emergent, although they may be internalized and made deliberate

Source: Mintzberg and Waters, 1985, p. 270

The effect is to demonstrate how strategy in a workplace environment can evolve as it is subject to the unique variations of organisational life. This point ably emphasises that strategy within an organisation is not an 'exact science', but situational and in constant flux.

2.1.2 Importance of Strategy

The attention paid to the concept of strategy would suggest very strongly that it is of key importance to the operation of a business. In essence, the fundamental purpose of this thesis is to explore the question of the importance of strategy, but it is perhaps necessary to briefly establish why writers on strategy have paid so much attention to a concept that they can not agree upon a single definition for, but mostly agree as to its importance.

It is important to start this brief review by saying that the importance of strategy is not universally recognised by all strategy writers. Some, like for example Hamel, who in 1996 argued that strategy is revolution (Hamel, 1996, p.70), or other writers like Peters who suggest that organisations should thrive on chaos (Peters, 1988), propose an anti-strategy viewpoint which appears to be the antithesis of many of the views on strategy that have been reviewed to date. To such writers, the 'strategy as plan' viewpoint is prosaic, inflexible and unsuitable to the modern economy which is flexible, and uncertain. Strategic planning isn't strategic (Hamel, 1996, p.70), in the sense of the definition of strategy as 'projecting and directing...in the immediate presence of the enemy' provided above. Strategic planning presumes that the enemy will be predictable and immobile. Strategy should be concerned with strategizing, which is essentially a quest (Hamel, 1996, p.71) for a successful vision, or formula, and it must not be restrained or limited if the quest is to succeed. This view is largely at odds with more traditional views of strategy making, as defined here by Andrews (1971), who argues that the characteristic of a strategic decision is that it will be "effective over long periods of time, affect the company in many ways, and focus and commit a significant portion of its resources to the expected outcome" (Andrews, 1971). Whether this role is performed through a plan (Glueck, 1980), or a pattern (Andrews, 1971), this is clearly at odds with the more nebulous concept presented by Hamel.

In asking why strategy is important, the work of Mintzberg is again reviewed and in particular attention is focussed upon a companion piece to his '5 P's for strategy' article (Mintzberg, 1987b). This article reviewed the question of why organizations needed strategy (Mintzberg, 1987c), and explored both sides of the question. Mintzberg identifies four principal reasons why an organisation is said to require a strategy:

- ▶ to set its direction;
- ▶ to focus its effort;
- ▶ to define itself; and
- ▶ to provide consistency.

In essence, Mintzberg draws attention to the shifting fashions of management thought, which will be discussed below. He notes that of the above reasons justifying the need for a strategy, the first three can act as a restraint upon an organisation, rather than enabling it. Directions can be too precise, which detract from the overall aims of an organisation if conditions change (Mintzberg, 1987c, p.26). Focussed effort may be too constricting and harmful if there is a need for change (Mintzberg, 1987c, p.27). Defining the business, while it can provide clear benefits, can also offer clear dis-benefits if an error has been made in choosing an identity for the organisation (Mintzberg, 1987c, p.28). Mintzberg

himself believes that the key to strategy is through its ability to offer consistency, and to reduce uncertainty (Mintzberg, 1987c, p.28), and the nature of either of these concepts will almost inevitably be situational.

Mintzberg critiques the views of authors such as Hamel, Peters, and indeed Miller and Friesen (1982), and argues that strategy is not about change and flexibility, which he argues is strategy making, and more about providing stability and consistency. This concept fits with any of the concepts of strategy discussed above and fulfils the human need for some degree of certainty, whether that certainty is a product of planning, or of a shared vision which establishes the boundaries of acceptable, and accepted behaviour. He also notes another important aspect of strategy: that it enables an organisation to exploit fully its existing resources to maximise the rewards for its endeavours (Mintzberg, 1987c, p.30).

Therefore, strategy is viewed as important because it acts as an enabler for an organisation. The form that strategy takes will probably be situational: there is no one recipe that works for all possible situations. Some situations may require a highly prescriptive planning led process, others a more emergent vision led process. Strategy's importance is perhaps most clearly demonstrated in its absence. Writers have often identified types of organisation where a strategy is missing, such as Miles and Snow's (1978) Reactor, or where a strategy is muddled or ill-thought, such as Porter's (1980) 'stuck-in-the-middle' organisation, and characterised them as representing failure. Throughout the remainder of the thesis, concepts of strategy are discussed with reference in particular to how organisation's establish the content of strategy, at various different levels of the firm. Implicitly, therefore, the author subscribes to concepts that argue that: strategy is necessary; strategy involves making decisions; organisations may take different decisions in relation to strategy; and the reasons why organisations take a particular set of strategic decisions and what set of options constitute those decisions can tell us a great deal about those organisations.

2.1.2.1 Levels of Strategy Making

One extra confusion that may arise from this discussion is that strategy making can occur at different levels of an organisation. There is an inevitable assumption that strategy making of the kind discussed above occurs exclusively at a corporate level, especially if one assumes that strategy emerges from a planned strategy model, as described in Table 2.2. However, the author believes that such a view would be erroneous. Strategy can also be made at a business level (Buzzell and Gale, 1987, Hofer and Schendal, 1978, among many), and at an operational level (Abell, 1980, Hamermesh, 1986, among many).

Buzzell and Gale, in seminal work, identify the existence of what they term strategic business units (SBU's), which are either single-product firms or separate divisions within larger parent companies. They contend that each SBU will have a distinct, separate strategy which would be related to a group strategy, or rather not independent of a group strategy, which would create a distinct, but partial strategy within what they term as "a boarder framework" (Buzzell and Gale, 1987). Feurer *et al* (1995) also use the label 'business units' to describe a second layer of decision making under the corporate level. This suggests a preference for the concept of an umbrella strategy, with which the author concurs, where targets and vision are defined at the head of an organisation and detail is added by decision-making managers lower down the hierarchy. The question of whether companies have 'a strategy' or 'a network of partial strategies' is a key consideration in this research, and will be returned to below.

For the purposes of clarity, it is necessary to identify the definitions the author proposes to utilise with respect to the levels at which strategy making can occur within an organisation. This clarification is necessary as there is a degree of confusion within the literature as to the precise definition of terms, particularly those of corporate, business and competitive strategy. Corporate strategy has been characterised as being concerned with the types of business that the company should be engaged in, and is therefore principally concerned with decisions relating to its scope (Johnson and Scholes, 1999). This process has been defined as domain selection (Bourgeois, 1996). Grant expressed the view that corporate strategy decisions included decisions in respect of the following high level issues: "investments in diversification, vertical integration, acquisitions, and new ventures, the allocation of resources between the different businesses of the firm, and divestments" (Grant, 1998, p.19). Other authors have described strategies of this kind as 'grand strategies' (Pearce and Robinson, 1994, p.220), which are defined and addressed in Section 2.5.4.

Business and/or competitive strategies are characteristically concerned with how the company intends to compete within the markets chosen at a corporate level. Once again, to quote Bourgeois (1996) competitive or business strategy is 'domain navigation'. At the operational level, strategies are concerned with how to operationalise partial strategies developed at the business level, themselves an attempt to operationalise partial strategies developed at the corporate level.

The confusion tends to emanate from authors describing domain selection as either 'corporate' or 'business' strategy making (such as Buzzell and Gale, 1989, or Abell, 1980), while other authors refer to either 'business' (Ohmae, 1983) or 'competitive'

(Porter, 1980, Bowman and Asch, 1996) strategy making with reference to domain navigation. For clarification, therefore, this research uses the term 'corporate strategy' to describe domain selection activities, 'business strategy' to describe domain navigation activities, and 'operational strategy' to describe activities undertaken to operationalise strategy. Support for this rationalisation comes from the literature (Dess *et al*, 1995, Pearce and Robinson, 1994, Abell, 1980, Bower, 1986), and reflects the fact that companies are increasingly being called upon to develop different strategies at different levels, and in different locations (Hitt *et al*, 1997).

2.1.2.2 Strategy: Prescriptive or Emergent

As was noted in Section 2.1.1, many writers on strategy have suggested that the strategy process itself provides a map which closely and clearly guides the future actions of the company: Chandler's association of 'long-run goals' and 'adoption of courses of action and resource allocation' (1962); Andrews' "Pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals" (1971); Drucker's "purposeful action" (1974), and Ansoff's strategy as a 'means' to achieve a company's ends (1985). This view can be summarised as the prescriptive approach to strategy formulation. An alternate title may be the 'design' approach, featuring "a logical process in which strategy is formulated through rational analysis of the firm, its performance and the external environment" (Grant, 1998, p.21).

The prescriptive or design approach is very much associated with the concept of strategy as plan, as discussed earlier in Section 2.1.1.1. It is a "consciously intended course of action" (Mintzberg, 1987b, p.11). By adopting this definition, a prescriptive approach discounts the concept of strategy as ploy, because there is an implied specific objective behind the operation. Prescriptive strategy formulation tends to follow a very traditional six stage process, here defined by Lynch (2000):

- ▶ define the organisation's objective;
- ▶ analyse the environment;
- ▶ reappraise objective in light of environmental analysis;
- ▶ develop options;
- ▶ select the most favourable option; and
- ▶ implement (Lynch, 2000, p.53).

Prescriptive approaches suggest activities aimed at minimising risk, by virtue of imposing as much order and certainty upon the strategy process as possible. Essentially, adhering to a prescriptive approach benefits the firm by providing: a complete overview of the organisation; the opportunity to compare strategic options with the organisation's

objectives; a further opportunity to assess the resource demands associated with any strategic option and an assessment of the contingencies available should events not follow a plan; and the ability to build a monitoring facility to observe the milestones within the plan as they are passed (Lynch, 2000, p.54).

Against this supportive view of a prescriptive approach come a number of criticisms and warnings from Mintzberg (1990) of its inherent dangers. He identified six basic assumptions underpinning the prescriptive view, which he argued could not be validated in an increasingly turbulent environment. These assumptions, and their attendant criticisms, were that:

- ▶ *the company's future was sufficiently predictable that the analysis and choice of options could be entertained.* Mintzberg argued that the whole planning process would therefore be rendered invalid if any one major competitor or element in the environment changed;
- ▶ *that a company is better advised to always take the long view than the short view.* He argued that even if it were possible to identify the long term aims of an organisation, which he doubted, it may not always be possible to create the sort of political or economic environment that is prepared to make the necessary sacrifices to achieve these goals;
- ▶ *that once formulated strategies would inevitably be followed as planned.* He argued that the inevitability of such an assumption holding took no account of the political environment within most companies.
- ▶ *that the CEO will establish goals, understand how best these goals are to be achieved, and carry the company with him in pursuit of these goals.* Again, Mintzberg argues that such a view is optimistic and takes no account of actual reality;
- ▶ *that strategies articulated as a result of this process will not require amendment or alteration regardless of the change evident in the environment.* Mintzberg acknowledged that this was at least a possibility, although unlikely in the majority of cases; and
- ▶ *that implementation is divorced from the strategy process, and will occur in a distinct phase following the conclusion of strategic analysis and choice.* He argued that this was unconvincing and simplistic given the complexity and interrelatedness of modern business organisations and environments.

Overall therefore this represents a highly critical analysis of the traditional approach adopted towards strategy formulation by most organisations. Indeed, it is hard to argue with any of Mintzberg's criticisms, and a conclusion must be drawn that a fixed and

unresponsive strategy process would contribute to more business failures than successes. However, it is also hard to conceive of many organisations who stick slavishly to a patently failing strategy if the evidence of failure is consistent and strong. There must be another reality, but is that provided by Mintzberg's alternative?

2.1.2.2.1 Emergent Strategy

Mintzberg's contrasting view predictably questions whether such an idealised and formalised process is viable in reality, and argues that the reality of strategy formulation, that it is less formal and less structured, be acknowledged. The view is therefore not of strategy as plan, but strategy as pattern. The result is a re-designation of the strategy process along the following lines. The strategy that is developed by senior managers is identified as 'Intended Strategy'. However, given the nature of decision making in large organisations, this intended strategy will by necessity be the outcome of a wide-ranging process of negotiation, internal politics, and compromise, reflecting divergent opinions and interests. His analysis suggests that what is actually achieved, 'Realised Strategy', tends to be a much smaller proportion of this intended strategy, due to the nature of the organisation's implementation process, which perforce requires managers to adapt to changing external circumstances, and indeed allows for operational managers interpreting intended strategy differently from their senior management colleagues. Intended strategy becomes realised strategy, therefore, because of emergent strategy.

This approach has been deemed as a 'process' approach, as distinct from the 'design' approach detailed above. However, it would seem to differ from that approach principally in terms of terminology, and the extent to which proponents of a design approach would argue and expect such an approach to be pursued to its fullest effect. The process approach does not distinguish between corporate and business strategy. All it would appear to do is acknowledge that there may be only limited similarity between corporate strategy and operational reality, due to external and internal moderating and mediating factors.

The key issue is that the process school identifies the normative design school as being an unrealistic method for use in strategy formulation. Mintzberg argues that separating formulation and implementation, and hence all of the factors which will affect the final appearance of 'realised strategy', is unrealistic, and denies the organisation which practices it considerable opportunity, while at the same time encouraging existing threats. He argues for a more intuitive approach to strategy formulation.

The reality of this debate is that in most organisations, strategy is made by design based upon the sort of systematic analysis described in Section 2.1.1.2. However, increasingly a greater awareness of the need for intuitive learning and understanding of strategy and its relationship to the firm plays a part in formulating corporate strategy, but this is essentially only one element of good strategy formulation. It could not, in most cases, take the place of systematic analysis and appraisal.

2.1.2.3 Alternatives

Cho (1998), in an analysis of strategic behaviour in Korea, argued that while companies that adapt to the environment are the norm, the true location of business strength in today's markets rests with companies that create an environment which is wholly advantageous to them. This overcomes the danger to the firm which, in the course of adapting to a changing environment, experiences unfavourably changed circumstances, finds that it can not adapt and therefore begins to lose ground. Cho proposes a new concept, called an Environment-Creating Mechanism (ECM) to ride the waves of change. The ECM features "the vision of the top management, the firm's ability to recompose and create both internal resources and external environment" (Cho, 1998, p.84). The approach depends upon the ability of the company's dominant coalition⁴ to envision the future, particularly the demands of the customers of the future, and act accordingly. Consequently the approach is based upon establishing objectives, like the prescribed approach, but not based upon an assessment of the past and current market situation as in a prescribed process. Cho's work included an analysis of very large organisations such as Daewoo, as well as smaller and more entrepreneurial Korean companies. The approach would appear to place itself very firmly in the strategic innovation phase of the evolution of strategic management as shown in Table 2.3. The ability of all managers to dream sufficiently creatively must be in doubt, but it is at least possible to argue that this approach may be the only way organisation's can hope to win in new virtual market-places.

A more conventional alternative is that provided by Burnes (1997), who believes that managers can and do exercise a considerable degree of choice over the direction of their organisations. He outlines a model; Burnes' Choice Management--Change Management model (Burnes, 1996), which explains how decision making can be utilised to control the circumstances in which an organisation operates, and so take control of its destiny.

4

The concept of the dominant coalition will be defined in Section 2.3.

2.1.3 A Chronology of Strategic Thought

The management literature has been subject to a series of major shifts in emphasis over the preceding fifty years, as writers have attempted to understand and address changes within the increasingly complex global market place. Arguably, the management literature has evolved alongside the industries and markets it has sought to analyse and understand. The development of management thought over this period also indicates the dynamics of an evolutionary process wherein differing perspectives have developed in competition with each other. A reoccurring feature of the process has been that concepts have been postulated, tested for validation or falsification, adopted, then 'replaced' as new schools of thought have developed to suggest a 'better' solution to than those which were formerly dominant. Consequently, the history of management thought has been epitomised by the development of new ideas, which have subsequently been superceded. The process is, as with any intellectual activity, competitive and the currency of many seemingly discarded concepts retain advocates within the literature, as forthcoming sections will attest. Grant's analysis of the evolution of the milestones in strategic management thought are shown in Table 2.3.

Table 2.3 is of interest, as it reflects the changing themes in the literature over the last five decades. It also reflects to a certain extent, the relationship between the management literature, and the real life business world it seeks to explain. The early themes reflect the reality of corporate life, and concepts like corporate planning and corporate strategy through portfolio management. It is clear that the 'strategy as plan' concept was very much in vogue during the early years of this period, and that during the 1950's and 1960's, there was very little variation away from the planning model, reflecting an environment that was arguably much more stable than that which is currently witnessed.

From the late 1970's onwards, reflecting the increased complexity of the markets the literature seeks to describe, it is possible to identify a shift in this relationship. Arguably, management writers started to become more ambitious in their outlook, and instead of inductively developing theories following observation, began to deductively test theories. Consequently, concepts like the analysis of industry structure, business process re-engineering, and various concepts of strategic innovation have emerged from the literature, to be 'imposed' upon industry rather than the other way around.

Table 2.3: The Evolution of Strategic Management

Period	Dominant Theme	Main Issues	Principal Concepts and Techniques	Organisational Implications
1950s	Budgetary planning and control	Financial control through operating budgets	Financial budgeting, investment planning, project appraisal	Financial management the key
1960s	Corporate Planning	Planning growth	Forecasting, investment, planning models	Rise of corporate planning departments and five-year formal plans
1970s	Corporate Strategy	Portfolio planning	Synergy, SBUs, portfolio planning, matrices, experience curves, return to market share	Diversification, multi divisional structures, quest for global market share
Late 1970s to Early 1980s	Analysis of Industry and Competition	Choice of industries, markets, segments, and positioning within them	Analysis of industry structure, competitor analysis, PIMS analysis	Greater industry and market selectivity, industry restructuring, active asset management
Late 1980s to Early 1990s	The Quest for Competitive Advantage	Sources of competitive advantage within the firm	Resource analysis, analysis of core competences	Corporate restructuring and business process reengineering, refocusing and outsourcing
Mid to Late 1990s	Strategic Innovation	Strategic and organisational advantage	Dynamic sources of competitive advantage, control of standards, knowledge and learning	The virtual organisation, the knowledge based firm, alliances and networks, the quest for critical mass

Source: Grant, 1998, p.18

Table 2.3 therefore reflects changing fashions in both industry thinking, and the academic literature. It demonstrates that complexity is a key issue, and that writers are attempting to devise ways in which this complexity can be tackled. The final section of the table identifies the development of such new approaches, seeking to accommodate the new competitive landscape developed by the on-going e-technical revolution. While an exploration of this aspect of the development of strategy, which seeks new sources of competitive advantage, is beyond the remit of this thesis, readers are referred to work by Hitt *et al* (1998) and a forthcoming work by Mische (2001), who discusses the “high-performance demands” of a new economy which is “competing at the speed of life” (Mische, 2001, p.1).

One interesting aspect of the debate, and its impact upon trends in management research, is noted by Hoskisson *et al* (1999). Referring implicitly to the analysis presented in Table 2.3, they argue that the increased complexity of the industrial environment has led to a return to favour of qualitative means of organisational analysis. They identify the genesis of organisational research as being qualitative, and case based through the work of pioneers such as Penrose, Selznick, and Chandler. They note that with the development of industrial economic approaches to the structural analysis of industry, the favoured approaches became more quantitative, but that the complexity of more business interactions requires a more qualitative approach. This debate is explored at length in Section 3.1 of Chapter Three.

2.2 Differing Concepts of Strategy in Relation to the Firm

Table 2.3 shows the emergence of the concept of competitive advantage during the 1980's as a key factor which changed the direction of strategic analysis within the literature. Before moving on to explore how the concept affected the development of differing schools of thought with respect to the behaviour of the firm it is perhaps necessary to briefly define the term. Authors such as Ohmae (1983) have been particularly associated with the concept, which has become a common currency within the literature, although the development of the concept may be traced back to the work of Selznick (1957). The concept involves gaining a sustainable advantage over competitors, in a fashion which produces the most added value for the organisation. This advantage may be found within a number of locations inside the firm, but its crucial element is that in some way it adds value to the firm in comparison with competitors within the same market.

Very often writers argue that competitive advantage lies within a firms' competencies (Bogner *et al*, 1999, p.275). There is a tendency within the literature for the terms 'capability' and 'competence' to be used interchangeably. Some writers have argued that this further confuses the debate but others suggest that the difference is "purely semantic" (Hamel and Prahalad, 1992, p.164). Within this thesis, the author seeks to avoid using the terms interchangeably, but instead recognises that the use of either term conveys an estimation of the degree to which a capability has been used effectively. To explain this distinction, it is necessary to note that organisations have a range of capabilities. When these capabilities are unique, or add value to a considerable extent they can be seen as competencies.

Writers have sought to further imply a hierarchy of competencies, and therefore that some competencies are more important than others. Selznick is credited with coining the term

'distinctive competence' to suggest the actions a firm performs particularly well in relation to its competitors (Selznick, 1957). The term has also notably been used by Snow and Hrebiniak (1980). This concept, that there are particular attributes which may be products, systems, processes or people, that a company possesses and which can bring it competitive advantage, was extended by the work of Hamel and Prahalad who coined the phrase 'core competence' to distinguish those capabilities held by the firm which are fundamental to the firm's performance (Prahalad and Hamel, 1990). The distinction of being a 'core competency' was later (Hamel and Prahalad, 1992) argued to be the providence of those capabilities/competencies which:

- ▶ make a disproportionate contribution to ultimate customer value, or to the efficiency with which that value is delivered; and
- ▶ provide a basis for entering new markets.

The key to this debate, as Grant notes (1998, p.118), is the fact that competencies are held, whether distinctive or core, relative to other firms. In short, therefore, competencies are important in that they provide a firm with an advantage over another firm. The extent to which that advantage can be sustained (Collis and Montgomery, 1995) brings us to a consideration of the differing concepts of the firm.

As Table 2.3 showed, during the 1980's the dominant theme in strategic management argued that strategy formulation be based upon a thorough-going analysis of one's industry and of one's competition within that industry. Characteristic of this time was the work of Porter, and the empirical studies conducted by the PIMS project (Grant, 1991). Porter took his general thesis to be that "the essence of formulating competitive strategy is relating a company to its environment" (Porter, 1980, p.3). In short, and using industrial economic theory, Porter argued that the opportunity for competitive advantage rested upon the structure of the industry, and the way that a company constructed strategy relative to the competitive environment that that structure produced (Teece *et al*, 1997). This view was highly influential, and has been subject to repeated analysis and testing. As a product of this process, an increasing number of authors have critiqued the approach as being incomplete, and unable to offer explanations which explain verifiable circumstances within the real world (Rumelt, 1991; Baden-Fuller and Stopford, 1992, Kay, 1994a). The result has in part been the development of a competing school of thought, based upon the effective utilisation of the resources of the firm, and the search for competitive advantage. Both schools of thought continue to enjoy prominence within the literature, as they attempt to adapt to and explain the new electronic economy and its impacts. Each of these competing schools, and their impact upon this research, are now explored in greater depth.

2.2.1 The Competitive Forces Approach

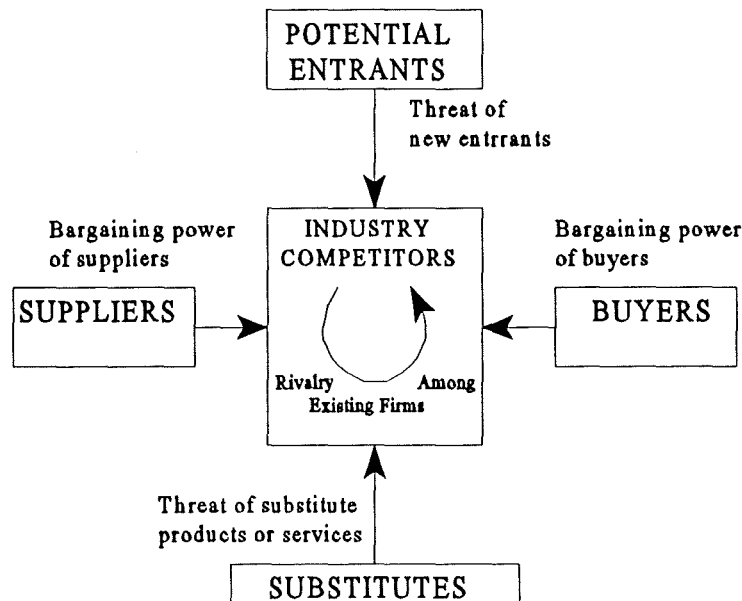
Early developments within the strategy literature aimed at understanding the strategy process tended towards qualitative case based assessments of individual companies (Hoskisson *et al*, 1999), while within organisations, corporate planning was the dominant activity (Grant, 1998). The advent of Industrial Organisation economics, or the competitive forces approach which was most notably championed by Porter (1980, 1985, 1996), shifted the attention of the firm externally towards industry structure and an organisation's competitive position within the industry relative to its competitors. Porter's work is widely known within the literature, and so the author does not propose to dwell upon it at length. In addition, the key elements of the approach will be discussed again in relation to the key drivers of strategy, in Section 2.2.3.

Porter's work argued that a firm's performance was primarily a function of the industry environment in which it competed. Furthermore he argued that the key consideration for the firm was the industry structure: the relationship between customers, suppliers and competitors, which determined the firm's performance. In seminal works published in 1980 and 1985, Porter presented an analytical framework that could be used for understanding the structural makeup of industry, and the attractiveness of an industry to new market entrants. Competitive advantage, in Porter's model, is determined by effective positioning within the industry, as well as effective differentiation of an organisation and its product offering from those offerings made by competitors, following extensive focussed segment analysis to "help the management of the organisation make judgements about the relative attractiveness of particular parts of the market" (Bowman and Asch, 1996). The process is therefore one of 'outside-in', where the key influences are external producing reactions within the company. His concepts were represented by his Five Forces Model.

Porter's Five Forces are usually discussed with reference to the model represented at Figure 2.1, which identifies the five forces as:

- ▶ Potential Entrants;
- ▶ Industry Competitors;
- ▶ The Threat of Substitute Products;
- ▶ The Bargaining Power of Suppliers; and
- ▶ The Bargaining Power of Buyers.

Figure 2.1: Porter's Five Forces Model: Forces Driving Industry Competition



Source: Porter, 1980, p.4

These five forces “jointly determine the intensity of industry competition and profitability, and the strongest force or forces are governing and become crucial from the point of view of strategy formulation” (Porter, 1980, p.6). Different forces will be of significance in different industries. When conducting analysis of this kind, it is vital for the strategist to bear in mind that long term factors need to be assessed, and should not be deflected by the numerous short term factors which may act to obstruct this process. The components of each of these are fully described by Porter in his 1980 work. The competitive forces approach championed by Porter is closely associated with the same author’s work on generic competitive/business strategies. Through the use of these strategies, Porter anticipates that companies can achieve competitive advantage within the context he describes. If the strategy devised by the firm enables it “to respond to, predict, or dictate these environmental forces” it is likely to be high performing, observers have concurred (Ketchen *et al*, 1996). However, the five-forces industry analysis approach is just one of a number of environmental scanning approaches that can and should be used by an organisation wishing to identify opportunity and avoid shocks. Time constraints mean, however, that a fuller exploration of such environmental scanning techniques as PEST *et cetera* is not possible in their review.

Most critiques of Porter’s views relate to these generic strategies, and their relative applicability, and these will be discussed at length in Section 2.5.5.2 of this chapter. However, it is worth noting two principal critiques of Porter’s views: firstly, that is it

highly unlikely that an organisation will have the appropriate resource flexibility to move between industries, if an analysis of its current industry's five-forces does not look favourable (Bowman and Asch, 1996, p.23). Secondly, there is a growing viewpoint that a simple focus upon the industry alone will not provide a guarantee of competitive advantage (Rumelt, 1991, Grant, 1991). This view leads the discussion towards a consideration of the resource based view of the firm.

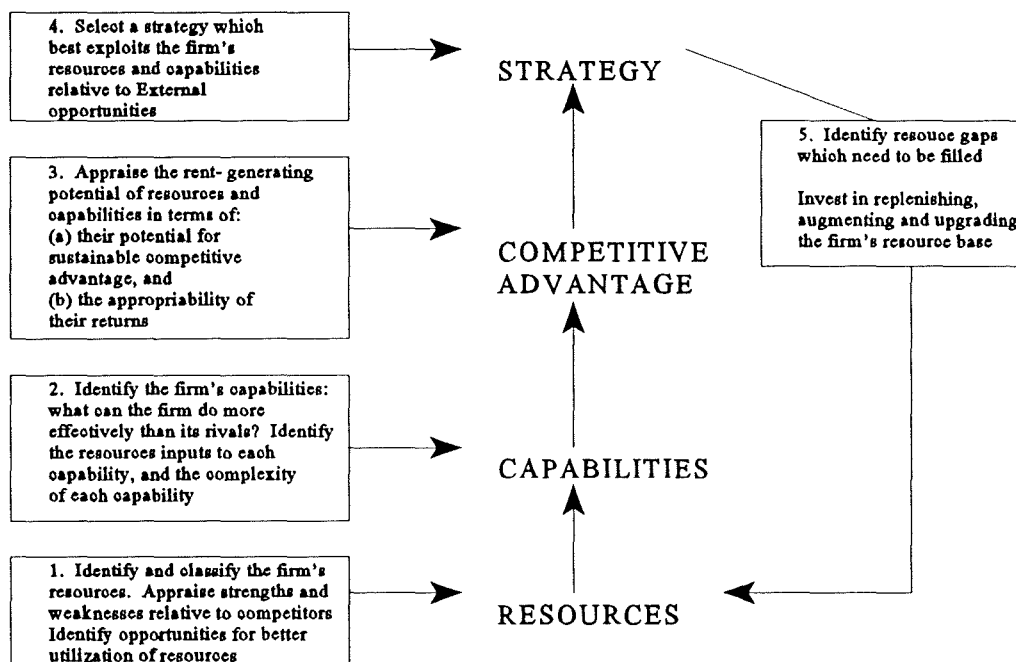
2.2.2 The Resource Based View of the Firm

The development of management theory based upon a 'resource based view of the firm' can be interpreted as an attempt to rectify the 'neglect' (Grant, 1991, p.114) the issue of resources received throughout much of the 1980's, as demonstrated in Table 2.2. Additionally, the resource based view of the firm is of significance because inter-firm performance differs. This suggests that firm-level phenomena are important (Hoskisson *et al*, 1999), and hence there is a need to understand how firms are different, and how firm's achieve and sustain competitive advantage. Furthermore, authors in favour of a resource based view of the firm have suggested that the traditional method by which companies define themselves; the market they are seeking to serve, is of increasingly less relevance. The new global economy is presenting a situation where markets and customers are so volatile that attempting to build a strategy around serving such a view is dangerous (Collis and Montgomery, 1995, p.118). Instability is therefore challenging accepted notions of the foundations upon which strategy is to be made, and emphasising the importance of resources, which translate into distinctive competencies.

The view of advocates of the resource based or competence based view such as Bogner *et al* (1996), Collis and Montgomery (1995), Scarborough (1998), Gorman and Thomas (1997) and so on, is that the instability of the competitive environment can be overcome by building strategies upon the stability provided by the firm itself, and in particular the combination of resources and capability/competencies which define the firm. Resources, therefore, should become the basis upon which strategy is made (Rumelt, 1987; Prahalad and Hamel, 1990; Grant, 1991; Barney, 1991; Mahoney and Pandian, 1992; Peterlaf, 1993; Collis and Montgomery, 1995, among many others), revisiting the work of economists like Ricardo, Schumpeter and Penrose (Grant, 1991, p.114), the latter of whom expressed the view that the firm was in essence a collection of productive resources (Penrose, 1959). The result, according to writers, such as Wernerfelt (1984), Rumelt (1984), Barney, (1986a), and Dierickx and Cool (1989) is superior performance, based upon superior resources.

A key aspect of the debate is improving the utility of resources. Grant argues that “the greater the rate of change in a firm’s external environment, the more likely internal resources and capabilities are to provide a secure foundation for long-term strategy” (Grant, 1998, p.108). He argues for strategy to be related directly to a rational perception of the true capabilities of the firm. In support of this view, he critiques Levitt’s (1960) view that companies should overcome uncertainty in their operating environment by narrowly defining the markets in which they will seek to compete, and suggests that this view very often leads to poor performance. Instead, he argues that a strategic approach based upon a clear understanding of internal capabilities can lead to a company being able to realise opportunities in areas that may have seemed unrelated without this sort of concentration upon resources. Such a focus would allow a company faced with declining demand in its traditional markets to focus upon other markets where its resources would be of equal value.

Figure 2.2: Grant’s Framework for a Resource-Based Approach to Strategy Analysis



Grant attempted, in an article in 1991, to develop a framework to allow a resource-based approach to strategy analysis, and that framework is reproduced at Figure 2.2. As can be seen, the framework is similar to most strategy framework’s in that it features a systematic

approach to the analysis and choice of strategy, augmented by a feedback loop to strengthen the eventual choice taken. Grant argues that the case for making resources the focus of a firm's long term strategy rests upon (a) the influence that resources and capabilities pose in shaping the basic direction of the firm's strategy, and (b) the role resources and capabilities play in providing the basic source of profits for the firm. These are briefly discussed below.

(a) Resources as a guide to the direction of strategy: Grant notes that normally such direction is provided by an understanding of the location of your markets and customers (Grant, 1991, p.116). However, and as already mentioned, given the increased volatility of markets and customers, this practice of focussing upon the external environment is perhaps akin to building a castle upon sand. An internal focus provides a much greater degree of stability, and hence "a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy than a definition based upon the needs which the business seeks to satisfy" (Grant, 1991, p.116).

(b) Resources as the basis for corporate profitability: Grant suggests that existing empirical research brings into doubt the commonly held view equating profitability with industry location, and argues that research has identified differences in profitability within industries as being more significant (Buzzell and Gale, 1987; Schmalensee, 1988), due to an increasing intensity in competition. Grant argues that, in effect, the whole strategic positioning approach was founded upon resources and so a focus upon resources overcomes any obfuscation a positioning strategy may cause.

Grant further argues that many theories relating to the creation of competitive advantage are centred principally upon resource issues. He cites barriers to entry as an example (Grant, 1991, p.117). Without resources such as patents, experience, brands, or physical resources creating scale economies for example, it would be impossible to erect such barriers. To overcome such barriers, a competitor must develop these resources themselves, so it is the possession and deployment of the resources in the first instance which confers the advantage rather than the position the company adopts.

Therefore, to summarise this brief review of the resource based view, the basis of a successful resource based approach is to accurately assess your resources and capabilities relative to your competitors, and the opportunities available to you in your existing industry as well as other concentric industries (Grant, 1991, p.121). This assessment must therefore be used to shape the direction, and the content of the strategy. However, a number of criticisms of the resource based view have been voiced. Principal among

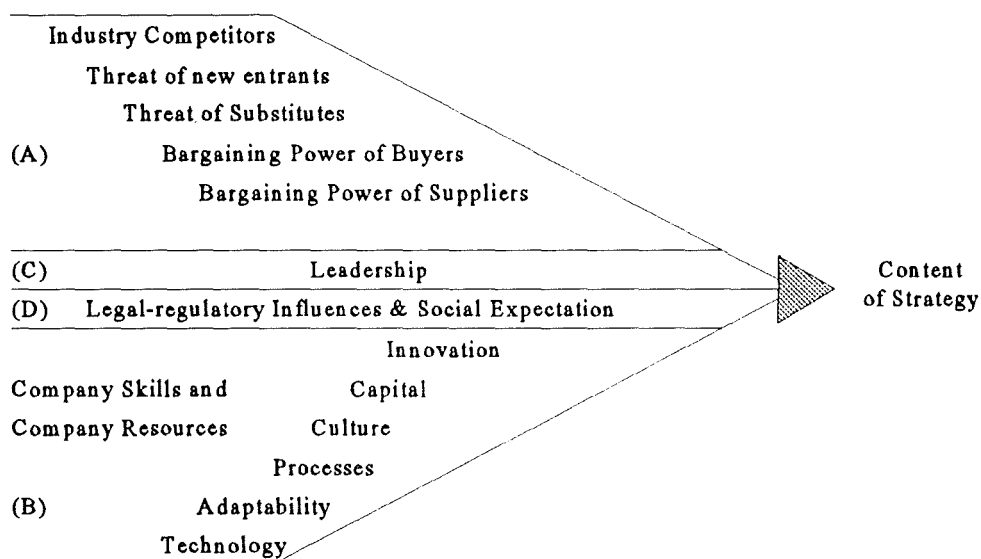
these is the difficulty of assessing and directly measuring concepts which do not lend themselves readily to measurement (Robins and Wiersema, 1995). Despite some authors arguing that this flaw in the resource based approach has begun to be overcome (Hoskisson *et al*, 1999), this remains a concern with the use of this approach.

2.2.3 Drivers of Strategy: Differing Perspectives

Implicit in the differing views of strategy in relation to the firm, are differing views as to what are the key factors driving strategy. The issue of strategy drivers is a crucial one in this research, and as such it is necessary to review these differing perspectives. Figure 2.3 presents a pictorial summary of the nature of the differing perspectives, and forms the centre-piece of this discussion.

The 'drivers' identified in Figure 2.3 have been divided into four distinct groups, to reflect differing perspectives. Group A reflects the key drivers identified by the competitive forces approach, and Group B reflects the key drivers identified by the resource based view. Group's C and D, leadership and legal-regulatory influences and social expectation, reflect key influences upon strategy whose importance is less contentious. This section aims to briefly explore the perspectives contained in Group's A and B. Leadership is considered a significant separate issue, and is therefore addressed as a separate area in Section 2.3 of this chapter. The influences of legal-regulatory authorities and social

Figure 2.3: Drivers of Strategy



expectation are particularly important in any discussion in relation to former State Owned Enterprises (SOEs), and so are addressed in a separate chapter, Chapter Four, which aims to provide the context for the research as a whole.

2.2.3.1 Strategy Drivers: A Competitive Forces Perspective

In Section 2.2.1, the components of a competitive forces approach were discussed. Within this discussion the importance of Porter's work, and in particular the five-forces model indicated that under this perspective strategy was driven by a company's reaction to a set of external forces which determined the extent of the intensity of competition within an industry. These forces: of potential entrants, industry competitors, substitute products, suppliers and buyers, seek to constrain the opportunity of a firm to achieve competitive advantage, and require a reaction on the part of the firm to prevent this.

According to this view, therefore, strategy is driven by competition and the demands that competition places upon a firm. Strategy is therefore a product of, and a reaction to, the operating environment. Within the literature, the relationship of strategy and environment is well established, and widely accepted (Burns and Stalker, 1961, Dess and Beard, 1984, Hambrick, 1983b, Miller and Friesen, 1984 among many others). Authors identify a variety of different strategy-environmental matches, within what has been described as the task environment: that is an environment defined by customers, suppliers, competitors and regulatory agencies (Roth and Morrison, 1992 quoting Dill, 1958). Authors exploring this area have identified and studied a variety of different industry-environment matches, among these high-growth, mature, declining, industrial, consumer, fragmented, or concentrated (Dess, 1987, Aaker and Day, 1986, Hambrick and Lei, 1985, Hambrick and Scheter, 1983, Harrigan, 1982, 1980, Hofer, 1975 among others). Within each, the environmental configuration creates a particular need for a response by a company (Pfeffer and Salancik, 1978), and furthermore authors argue that the same principals apply whether the company has a national or international focus (Roth and Morrison, 1992).

2.2.3.2 Strategy Drivers: A Resource Based Perspective

In contrast to the externally focussed perspective outlined previously, a resource based perspective looks inwards. Strategy, as has been argued by authors subscribing to this view, should be based upon a foundation of a firm's resources (Grant, 1991, p.114). Advocates of a resource based view suggest that strategy selection should be based upon identifying the best match between resources and corporate aims relative to external opportunities, rather than be driven by external demands and opportunities that may not be attainable given a particular resource profile (Grant, 1991, p.115-116). Advocates of a resource based view do not disregard the need to also have an external focus, indeed

Collis and Montgomery note the importance of a combined internal-external focus (Collis and Montgomery, 1995, p.119). The resource based view simply argues for an internal focus, to best judge the appropriate response to the sort of external pressures identified above.

Consequently the availability and quality of company skills and resources drives, or constrains, strategy under a resource based view. As shown in Figure 2.3, therefore, the key elements influencing strategy are its technology, adaptability, processes, culture, capital resources, innovational capability, people *et cetera*, relative to its competitors and to the demands of the industry in which it seeks to operate. The resources of an organisation therefore are strategic enablers, the availability and quality of which will influence the content of strategy. In the view of the author, they do not represent the strategy of the company itself. As Grant notes, "the essence of strategy formulation...is to design a strategy that makes the most effective use of (the) core resources and capabilities" (Grant, 1991, p.129), which exploit to the maximum its unique characteristics (Grant, 1991, p.133). Clearly, this association of competencies/resources has been linked here directly with competitive advantage, by presenting a company with "a gateway to a wide variety of potential product markets" (Hamel and Prahalad, 1994, p.219). Thus, arguably, a resource based view requires an organisation to develop an approach which looks beyond a single industry.

2.2.3.3 Impact of Strategic Drivers on Research

As part of this research's objectives, the competing competitive forces and resource based views are reviewed throughout the research. The impact of each, alongside the question of leadership to be addressed shortly, and the impacts of the legal-regulatory requirements addressed in Chapter Four, are constantly reviewed throughout both the preliminary and field research, and used as reference points in relation in particular to Objective Two.

2.3 The Impact of Leadership

Within the literature, the importance of leadership to superior performance within organisations is extensively identified (Hart and Quinn, 1993, Keller, 1992, Kotter, 1990 among many). However, the importance of leadership was not always as recognised as is the case in the current literature (Ireland and Hitt, 1999). Perhaps the key theorist involved in changing this perception was John Child (1972). Child argued that strategic leaders, armed with the necessary knowledge and responsibility for decision-making, could significantly influence the direction of a firm, and the way in which it was to be managed. Arguably, the connection had not previously been made, as the literature had

tended to focus upon managerial issues (Ireland and Hitt, 1999). The distinction will be drawn below.

The literature surrounding the issue of leadership is extensive, reflecting its importance. A full review of that literature is beyond the scope of this survey, which seeks primarily to focus upon the key aspects of leadership as developed from Child's perspective, and which relates directly to the objectives of this research. This involves a consideration of the ability of the leadership/dominant coalition to affect strategic decisions. However, before moving on to consider this objective, it is perhaps necessary to outline some key aspects of the debate about leadership.

2.3.1 Leadership Defined

The literature has suggested that managers and leaders are different people, and perform different tasks within an organisation (Kotter, 1990, Zaleznik, 1977). They are "two distinct and complementary systems of action" (Kotter, 1990). To Kotter, management is concerned with coping with complexity, a vital task as organizations have grown, and become more complex. In contrast, leadership is about coping with change. While the need to change has also grown as the business world has become more complex, the emphasis is different. Management involves ensuring processes work effectively, leadership with ensuring that strategy is effective and congruent. Both are vital for organisations wishing to prosper.

Kotter notes that each involves deciding what must be done, creating networks of people and relationships to undertake what must be done, and then sets out to accomplish these objectives. However, management and leadership differ in the ways these tasks are addressed. Management emphasises control measures such as planning and budgeting to establish milestones, and then allocates resources to achieve these milestones. It emphasises staffing and organization to facilitate this process, and establishes control methods and problem solving techniques to ensure plans are adhered to. Leadership establishes a direction for the organization, through the development of a vision, and the appropriate strategies to achieve this vision. It aligns people to create the appropriate environment in which the vision may be achieved. Whereas managing implies control, leadership implies motivation and inspiration. This research's focus upon strategic development and content justifies the emphasis here upon leadership.

Research has suggested that there are two principal leadership styles: transactional and transformational (Burns, 1978). The suggested distinction drawn between the two styles rests upon the nature of the contact between leader and led. A transformational leader

will seek to motivate by providing an example or elaborating a vision, while a transactional leader will seek to control, by instituting systems and dictating targets. The distinction is discussed by Tichy and Ulrich thus: "where transactional managers make only minor adjustments in the organisation's mission, structure and human resource management, transformational leaders not only make major changes in these three areas, but they evoke fundamental changes in the basic political and cultural systems of the organisation. The revamping of the political and cultural systems is what most distinguishes the transformational leader from the transactional one" (Tichy and Ulrich, 1984, p.6). This view is not universally held, however, as Bass concludes that transformational leadership is a variation of transactional leadership, employed in specific cases (Bass, 1990).

A number of studies of Transformational leadership have been undertaken, and have led to the conclusion that this approach can have the most marked impact upon organisational performance (Bass, 1990, Lim, 1997, Kouzes and Posner, 1987), while Wilderom and van den Berg's (1997) work suggests that some form of balance is necessary, between relying totally upon one at the expense of the other, a view supported by Davis *et al* (1997). Clearly, either approach, if taken too far, carries the considerable risk of unbalancing an organisation. Another interesting study, conducted by Hambrick and Mason, identifies the importance of the environment in driving the actions of a leader (Hambrick and Mason, 1984). This finding draws the debate on leadership back to the question of the impact of the environmental context of the firm, addressed in Section 2.2.3.1.

The concept of leadership is often bracketed with that of the dominant coalition (Cyert and March, 1992). This concept is defined by Pearce as "the social network of individuals having the greatest influence on the selection of an organisation's goals and strategies" (Pearce, 1995, p.1075). The power of a dominant coalition is derived from the individual power and influence of its members, who obtain their power from their ability to command the resources of the organisation. Miles and Snow (1978) note, in their work on organisational typology, that the membership of the dominant coalition will vary in accordance to the type of organisation it manages. Hence the dominant coalition of a defender organisation with its emphasis upon control will contain managers from the finance and production functions (Miles and Snow, 1978, p.48), while a prospector, with its emphasis upon innovation would see representatives from the marketing and research and development functions within its dominant coalition (Miles and Snow, 1978, p.66), and so on.

Even allowing for the brevity of this review, it is clear that support for the concept of the importance of leadership in strategy making is significant, and is clearly identified as a driver of strategy. As identifying the impacts of different drivers of strategy is an established objective of this research, it is necessary to understand more about the features of strategic leadership. Therefore the next section concentrates upon the role of the CEO, as the central leadership figure either individually or as a key member in a dominant coalition, in this crucial area.

2.3.2 The Role of the CEO

The role of the CEO is of particular interest in this research project. In an industry that was relatively homogeneous as it moved into the new era, and in which senior managers were primarily drawn from the ESI (see Chapters Five to Eight) the impact of leadership could be expected to be crucial. This section therefore reports an empirical study of the role of the CEO/leader conducted by Farkus and Wetlaufer (1996). Their study of 160 US CEO's identified five different styles of management and also established that generally a CEO will "adopt the approach that will best meet the needs of the organization and the business situation at hand" (Farkus and Wetlaufer, 1996, p.111), thus agreeing to some extent with the view that leadership is likely to be situational, as discussed above. The five approaches they identified were:

- ▶ *the Strategy Approach*: where the CEO identifies their role as being primarily the person with responsibility for creating, testing and designing the implementation of long-term strategy. They take responsibility for, and are prime communicators of, decisions, overlook all aspects of resources allocation, and spend much time analysing the environment. This approach demands much data collection and analysis. It also seeks to bring the company much closer to the real demands of the customer. Farkus and Wetlaufer's research identifies industrial complexity as being one of the chief reasons for the use of this approach - a CEO appreciates how hard it is to compete in the industry, and sets out to make sure that the company does well by leading the strategic effort themselves;
- ▶ *the Human-Assets Approach*: in contrast to the former approach, managers adopting this approach are concerned principally for the appropriate development of their key managers in order to enable them to take the appropriate decisions in their functional roles. Their aim is to create a network of satellite CEOs, so recruitment and training of managers is key, as is the retention of effective managers. This approach emphasises a degree of conformity to a 'corporate way of doing things', and this approach is most effectively inculcated from the top down;
- ▶ *the Expertise Approach*: CEOs favouring this approach believe their role to be

that of emphasising the skills and resource assets of the organisation, to be used to build competitive advantage. There is a heavy emphasis upon building and improving knowledge networks within the organisation, as a means of differentiating the company. CEOs are very close to recruitment, and to the deployment of key staff to effectively share skills around the company;

- ▶ *the Box Approach:* CEOs favouring this approach seek to establish a control culture upon the organisation, and spend their time developing and monitoring explicit control mechanisms to ensure uniformity. This is an approach which seeks to be risk averse, through being more overtly prescriptive, and tends to favour a promotion system based upon seniority. The evidence found that 'box approach' CEOs were more likely to be found in highly regulated industries, or industries where public safety is the primary concern; industries with little or no 'margin for error'; and
- ▶ *the Change Approach:* Farkus and Wetlaufer argue that CEO's adopting this approach believe that their "most critical role is to create an environment of continual re-invention, even if such an environment produces anxiety and confusion, leads to some strategic mistakes and temporarily hurts financial performance" (1996, p.112). Change agents of this kind are the exact opposite of 'box approach' CEO's. Their approach is based upon passion, energy and openness as they strive to push the company forward, and aim for their most important contribution, identified by Farkus and Wetlaufer as consensus building.

Farkus and Wetlaufer note that overlap can and does occur, but that CEO's tend to adopt and abide by one dominant approach, and they infer that consistency is a feature of an "effectively run organisation". There is scope for a change in approach, however, if the situation demands it. A different perspective is presented by Lynch, who also identifies a series of differing leadership styles, but characterizes only two forms: that of a shared vision approach, and of a dominance approach (Lynch, 2000, p.451). Lynch, in defining the shared vision approach, returns to the work of Senge (1990) who identified that while leaders provide vision, defining purpose and strategy was the function of the whole organisation. The leader's role, therefore, is that of a facilitator who works towards developing an understanding of a shared purpose. Largely, this approach shares elements of the human-assets approach and the expertise approach identified by Farkus and Wetlaufer.

The other approach Lynch describes as the Dominance Approach. This approach, like the Box Approach of Farkus and Wetlaufer requires "strong and firm central leadership to enable it to survive" (Lynch, 2000, p.451). However, Lynch also allows for different

styles of dominance approaches, noting that entrepreneurial leadership could also be as dominant as a strict disciplinary style of leadership. Lynch argues that the choice of leadership style will depend upon a number of factors, and draws upon the work of Bourgeois and Brodwin (1983) to identify them. These factors include:

- ▶ the personality and skills of the leader;
- ▶ the size of the company;
- ▶ the degree of geographical dispersion of the company/its clients;
- ▶ the stability of the organization's environment;
- ▶ the current management style of the organization's culture; and
- ▶ the organization's current profitability and its desire and need for change.

2.3.3 Strategic Leadership

Recently (Mische, 2001) writers have developed the phrase 'strategic leadership' to reflect the importance of leadership in the ever more complex operating environment. Principally, the aim is to identify the new roles that strategic leaders must play to keep their organisations competitive. Ireland and Hitt (1999) suggest that these areas include:

- ▶ developing and sustaining an effective organisational culture;
- ▶ emphasizing ethical practices;
- ▶ establishing balanced organisational controls;
- ▶ being growth oriented;
- ▶ developing knowledge management capabilities;
- ▶ mobilizing their available human capital; and
- ▶ remaining focussed upon the future.

A recent alternative perspective on the relationship between effective strategic leadership and superior organisational performance is provided by Eisenhardt (1999), who identifies the following four key lessons that strategic leadership should heed, to encourage the development of successful strategy. Leaders should, she argues:

- ▶ build collective intuition;
- ▶ stimulate quick conflict within a dominant coalition to arrive at consensus early;
- ▶ maintain the pace of decision making, and not allow the process to slow down; and
- ▶ defuse political issues within the organisation (Eisenhardt, 1999).

Mische contends that the concept of individual strategic leadership is "archaic" in a modern business environment (Mische, 2001, p.194). Instead, he associates leadership with the concept of the dominant coalition, and also provides a series of 'traits' that strategic leaders should possess, a number of which inevitably overlap with the

characteristics identified by Ireland and Hitt, and Eisenhardt. He does identify what he terms as 'the five essential qualities of high-performance leadership' (Mische, 2001, p.198): character and integrity; sense of self; a passion to lead; perspective and insight; and confidence, courage and conviction, which given his view on dominant coalition must therefore be shared among a leadership elite.

2.3.4 Impact on Research

As stated previously, strategic leadership has been identified as a driver of corporate strategy. As such it needs to be considered throughout the preliminary and field stages of this research. Certain key aspects discussed above therefore will be used as variables in identifying and classifying the strategic characteristics of the companies under study. Principally the leadership styles, as suggested by Burns, and Farkus and Wetlaufer will be examined for, as will the membership of dominant coalitions, as per Miles and Snow. The aim of this exercise will be to identify whether the appropriate leadership configuration has been applied to emergent strategic combinations (as discussed in Section 2.6 of this chapter), and whether there is any identifiable relationship between types of leadership style, and strategic direction. This study will also attempt to relate discernable changes in strategic direction to changes in the identity of a company's leadership.

2.4 The Importance of Structure

One other crucial area which impacts upon strategic decisions and content is that of organisational structure. Once again, it is not possible to include more than a cursory review of this important area of the business literature, but insofar as structure play a role in the upcoming discussion such a review is necessary. The structural debate is principally focussed upon the question of whether structure follows strategy, as asserted by writers such as Chandler (1962), whether strategy follows structure, or whether as Mintzberg and Quinn argue "the two exist interdependently, each influencing the other" (Mintzberg and Quinn, 1996, p.320). Over and above this debate, what is not in question is the importance of arriving upon the appropriate structure for an organisation as, as Handy notes, "many of the ills of organizations stem from imposing an inappropriate structure on a particular culture" (Handy, 1985, p.185). In this section, therefore, the concept of structure is defined, and differing perspectives on the question of the relationship between strategy and structure are considered. Finally, some of the more common structural arrangements are presented, and the state of current thinking on the appropriate nature of these structures considered.

2.4.1 A Definition

The initial definition of 'Structure' is provided by Alfred Chandler, whose 'Strategy and Structure: Chapters in the History of the American Industrial Enterprise' has been identified as being the most probable starting point for modern research into corporate structure (Galbraith, 1973). Structure, Chandler asserts, "can be defined as the design of organization through which the enterprise is administered. This design, whether formally or informally defined, has two aspects. It includes, first, the lines of authority and communication between the different administrative offices and officers and, second, the information and data that flow through these lines of communication and authority. Such lines and such data are essential to assure the effective coordination, appraisal, and planning so necessary in carrying out basic goals and policies and in knitting together the total resources of the enterprise" (Chandler, 1962, p.14).

Therefore, Chandler suggests that structure is not solely about the physical framework of the organisation, but also about the intangible systems that operate across the company's physical structure, and provide the 'life blood' of the company. Structure therefore includes the channels along which information flows, through which direction is provided, and through which responsibility is exercised.

2.4.2 Differing Perspectives

Chandler noted that progress in the areas of technology, business practice and a widening of the patterns of demand experienced by the companies he had studied, largely drove their strategies. As a response to changes of this nature the new strategies developed by these organisations placed new demands upon each company's existing structures; demands that these structures were not equal to, leading to change. His research emphasized that "a company's strategy in time determined its structure and that the common denominator of structure and strategy has been the application of the enterprise's resources to market demand" (Chandler, 1962, p.383). His finding, that "product-market diversification required subsequent alterations in structure" (Miller, 1986) proved highly popular in the 1970's, and was widely tested and found to be proven in a number of national tests, such as the investigation conducted in Britain by Channon (1973).

However later research suggested that, as Mintzberg argues, the 'one best way' approach to organisational structure was not consistent with superior company performance (Mintzberg, 1979, 1996b). The result has been the development of a view that argues that "structure should reflect the organisation's situation....the extent to which its environment is complex and dynamic" (Mintzberg, 1996b, p.331). But even that development is not sufficient to address the requirements of an increasingly demanding

environment. To meet such needs Mintzberg argues for the development of a further new approach, which he describes as a configuration approach. In this approach, a logical process is pursued to ensure that all elements of organisational design are internally consistent (Mintzberg, 1996b, p.331). Mintzberg's view is that once research is undertaken into the structuring of organisations, a series of generalizable organisational types emerge which are distinct and accurately describe organisational reality for most organisations.

Mintzberg continues by arguing that each organisation has six basic parts: the strategic apex, the middle line, the operating core, the technostructure, support staff, and 'ideology'. The strategic apex provides the leadership in the company, and it is the position from where the operations of the company are overseen. Miles and Snow refer to this part of the managerial structure as the dominant coalition, as defined in Section 2.3.1. The middle line refers to the development of a middle management structure within the managerial hierarchy between the 'strategic apex' and the 'operating core', who are the part of the organisation which undertakes productive labour (in a traditional manufacturing organisation for example). As organisations become more complex, a 'technostructure' develops which contains what Mintzberg called 'analysts'. This group of 'analysts' may include technical staff performing IT functions, but also other staff managing other activities such as an organisation's environmental or quality programmes. 'Support staff' includes other members of personnel providing services for the organisation, which can vary from cafeteria employees to the organisation's public relations activities. The 'ideology' of the organisation is its guiding values, or organisational culture. Table 2.4 shows a series of seven configurations devised by Mintzberg to show the possible interrelationships between internal and external factors influencing the organisation. Mintzberg determined the nature and descriptions of the seven configurations based upon his assessment of three key determining characteristics: the prime coordinating mechanism; the key part of the organisation; and the type of decentralisation predominating.

Mintzberg's thesis is that there will be a fit between structure and strategy, in much the same way that there would be a fit between strategy and environment. Structure arguably then becomes a issue of organisational flexibility and responsiveness, reflecting the demands of the environment and the resources available to an organisation.

Table 2.4: Mintzberg's Structural Configurations

Configuration	Prime Coordinating Mechanism	Key Part of Organisation	Type of Decentralization
Entrepreneurial organisation	Direct Supervision	Strategic Apex	Vertical and horizontal centralisation
Machine organisation	Standardisation of work processes	Technostructure	Limited horizontal decentralisation
Professional organisation	Standardisation of skills	Operating core	Horizontal decentralisation
Diversified organisation	Standardisation of Outputs	Middle Line	Limited vertical decentralisation
Innovative organisation	Mutual adjustment	Support Staff	Selected decentralisation
Missionary organisation	Standardisation of Norms	Ideology	Decentralisation
Political organisation	None	None	Varies

Source: Mintzberg, 1996b, p.343, extending his work of 1979

Another view of the question of structural forms has been provided by the US academics Raymond Miles and Charles Snow. Many of the assumptions adopted by Mintzberg: that there should be a fit between strategy, structure and environment, are reflected in the work of Miles and Snow, but they provide some interesting variations. In particular, in their articles of 1986 and 1992, Miles and Snow sought to introduce and explain a new structural form, the network, which seeks to resolve the dilemma of structural flexibility evident in Mintzberg's configuration. Miles and Snow identified three basic forms: functional, divisional and matrix, and differentiated the new network firm from these. Within the new network type of structure, they identified three different variants: the stable network, the internal network, and the dynamic network. Miles and Snow's work is central to Objective Three of this research, so some time is provided to a consideration of their conceptual forms.

(a) *The Functional Form*: Miles and Snow defined the functional form as "a special-purpose machine designed to produce a limited line of goods or services in large volumes and at low cost" based upon "centrally coordinated specialization" (Miles and Snow, 1992, p.58). Often firms adopting this form would integrate forward and backward to secure customers and supplies respectively. Such action is potentially highly costly, not least in that the control systems needed to manage a functional company may be unable to judge the extent to which such investments of this kind make a contribution. Miles and

Snow note the recent tendency to disaggregate - to buy, rather than to make - in such situations. They also note the problems associated within this form when it tries to move away from its traditional products, and make a more diverse product offering.

(b) *The Divisional Form*: Miles and Snow defined the divisional form as “a collection of similar special-purpose machines, each independently operated to service a particular market and all evaluated centrally on the basis of economic performance for possible expansion, contraction, or redirection” based upon a coupling of divisional autonomy with centrally controlled performance evaluation and resource allocations (Miles and Snow, 1992, p.60). The form is both flexible, possesses the potential for economies of scope, and can focus assets in areas of new business opportunity. The divisional company “develops an unique competence for evaluating divisional performance in a given set of related markets and for investing pooled returns to promote growth in existing divisions and to create or acquire new divisions” (Miles and Snow, 1992, p.60). Miles and Snow note that the divisional form would provide a company with advantages in responding to new opportunities. They note the problems associated with this form are those of over extension, into areas outside of their distinctive competence. Divisionalized firms may also tend to move away from their fundamental reason for existence, which may undermine their ability to retain congruence. Miles and Snow raise the concern that companies that operate a notional divisional structure may introduce “extensive corporate staff coordination” leading to minimal actual divisional autonomy (Miles and Snow, 1992, p.61).

(c) *The Matrix Form*: Miles and Snow define the matrix form as “a complex machine simultaneously generating two or more outputs for a set of both stable and changing markets” (Miles and Snow, 1992, p.61). The matrix form is a composite of both the divisional and functional forms. The key to the matrix form is the requirement for “balance among the components to produce mutually beneficial allocations of resources” (Miles and Snow, 1992, p.61). Similarly, the matrix form may be overloaded by extending its operations beyond its capabilities. It may also suffer if modifications occur which ‘violate its operating logic’; that is, if the balance it sought to develop was allowed to deteriorate.

Miles and Snow conclude that for all forms they identify, their internal operating logic only exists within certain limits, and that “when a particular form’s operating logic is violated, even by apparently reasonable extensions or modifications of the form, failure may result” (Miles and Snow, 1992, p.62). The primary applications and principal causes of failure of the three longstanding structural forms are replicated from their 1992 paper,

at Table 2.5.

(d) *New Network Forms*: as stated above Miles and Snow have identified a new organisational form, the network. Within the network form, they argue it is possible to identify three distinct patterns. The need to distinguish different types of network forms perhaps reflects a recognition that there were problems inherent in the existing three forms proposed. Arguably, they were not able to adapt to the rapidly changing operational environment.

Table 2.5: Causes of Failure in Traditional Organizational Forms

Organizational Form	Functional	Divisional	Matrix
Primary Application	Efficient production of standardized goods and services	Related diversification by product or region	Shared assets between standardized products and prototype contracts (e.g., many aerospace firms) Shared assets between worldwide product divisions and country-based marketing divisions (e.g., some global firms)
Extension Failure	Vertical integration beyond capacity to keep specialized assets fully loaded and/or to evaluate contributions	Diversification (or acquisitions) outside area of technical and evaluative expertise	Expanding number of temporary contracts beyond ability of allocation mechanisms Search for global synergy limits local adaptability
Modification Failure	Product or service diversification that overloads central planning mechanisms	Corporate interventions to force coordination or obtain efficiencies across divisions	Modifications that distort the dual (i.e., favour one type of market or product over another)

Source: Miles and Snow, 1992, p.59

The first of these network forms is the *Stable Network*. Miles and Snow suggest that the stable network form has its roots in the functional structure. That is to say, it is designed to serve a fundamentally predictable market, by linking activities along a clearly defined value chain. The stable network substitutes for a vertically integrated firm. The principal problems associated with this form are those associated with an over concentration upon supporting the activities of a single core firm. It may lead towards a diminution of the impact of the market upon each of the firms in the network. This process is described as one of "asset overspecialisation and over dedication" (Miles and Snow, 1992, p.63). Such close ties restrict the freedom and flexibility of a network company, and lowers its ability to innovate or update its processes. Stable networks can also be damaged by an overzealous attempt by core firms to influence the actions of suppliers or distributors. In

so doing, the core firm may be converting the network into a vertically integrated functional organization.

The second network form is the *Internal Network*. This form requires the creation of a market within a firm, with sub-units buying and selling amongst themselves at market approximating rates. The internal network, like the matrix structure aims “to gain competitive advantage through shared utilization of scarce assets and the continuing development and exchange of managerial and technological knowhow” (Miles and Snow, 1992, p.65). This form, like the matrix, can fail by over extension. It may also fail by mis-guided modification, and the problem of forced transactions. Again, the overall objectives of the structure need to be held in mind when internal resourcing or political decisions are taken. The key success factors in such a form need to remain paramount for decision makers. This is an important concept, and one witnessed often within the companies examined in this research.

The third network form is the *Dynamic Network*, whose operating logic is closely linked to the divisionalized form. In this form, independent firms are linked together to achieve the one-time, or short term, attainment of a particular good or service. The success of the form depends upon their being numerous substitute firms available at each point in the value chain ready to join and break as required. The viability of each firm at each point depends upon their ability to stay flexible and creative, and avoid becoming limited to, for example, providing a particular product at a particular specification for a particular network. Miles and Snow describe these sorts of companies as “hollow corporations” (Miles and Snow, 1992, p.67).

They note that problems arise in all forms from an inability to self-renew, at least in a competent fashion. All the forms may attempt to move forward, but can lose sight of their primary purpose. Efforts at self-renewal lead therefore into attempts at wholesale, and possibly incongruous change. The concepts developed by Miles and Snow, and in particular their work on network structures, are becoming increasingly widely used within the literature (as recent work by Lepak, and Snell, 1999, Sheppard and Sherman, 1998, Stuart *et al*, 1998, and Singh, 1997 among others indicates).

Another author who has attempted to establish a series of common configurations of strategy and structure is Danny Miller. Miller critiqued the early work of writers examining the relationship between strategy and structure as being too narrow (Miller, 1986, p.233-4): firstly, in terms of a failure to understand the breath of strategic options available to firms, and secondly for not exploring the link between the content of strategy

and organisational structure. Miller's approach was therefore to seek to compare the work of strategic theorists like Porter (1980), Hambrick (1983a) and Miles and Snow (1978), with the work of major structural theorists such as Lawrence and Lorsch (1967), Burns and Stalker (1961), Galbraith (1973) and Mintzberg (1979). His main thesis was that there exist ties that unite strategy and structure, and "that given a particular strategy there are only a limited number of suitable structures" that the strategy can be successfully pursued within, and *vice versa* (Miller, 1986, p.234).

Miller undertook exploratory work attempting to match aspects of strategic content to known structural typologies, and found a large degree of correlation between certain structures and their suitability to support certain strategies. Miller argues that there is a wide degree of similarity between the various generic configuration schemes devised by authors, and that in turn each of these similar archetypes is tied to a particular set of corporate or business level strategies (Miller, 1986, p.236-237). The subject of generic classification is addressed in greater detail in Section 2.5 of this chapter, but it is instructive here to consider some of Miller's observations. He presented a large quantity of data relating structure, environment and strategy, which is replicated at Table 2.6.

It is clear from the work presented in Table 2.6 of the interrelated nature of many of the concepts that have been addressed to date. For example, Mintzberg's 'entrepreneurial organisation' is clearly akin to Miller's simple structure, and Miller's work extends the concept by adding details of the kind of strategies that companies of this type would be seeking, and the sort of environments that they would inhabit. Similarly, Miles and Snow's Defender organisation (Section 2.5.6.2.1) and functional form is evident within the machine bureaucracy, and so on. Miller's work can therefore be seen to strengthen the links between structure and strategy, and establishes a basis for the following discussion of the various types of strategy, leading to an understanding of a 'whole systems' perspective (in Section 2.5.6).

As with other aspects of the management literature covered in this survey, the literature on structure and its relationship with strategy is extensive, and impossible to cover in any great depth. This section has, however, noted the initial assumption popularised by authors such as Chandler who argued for the tendency of structure to follow strategy, and cited the development of divisionalized structures resulting from the development of diversification among US forms in the early to mid Twentieth Century as an example of this trend. In addition, this section also sets out the views of authors such as Mintzberg who believes that more recently it is increasingly unwise to see either structure or strategy as preceding or following the other. Rather, it is more likely that as strategy making has

become more complex these decisions have emerged simultaneously out of the strategy formulation process, a view that the author broadly concurs with. The section also presents a variety of models by noted authors describing various organisational structures which have been shown to be related to each other in relation to aspects of their design. These models seek to show the relationship between structure and strategic content, that will be discussed in greater detail in Section 2.5.

Table 2.6: Miller's Relationship Between Structure, Environment and Strategy

<i>Structural dimensions</i>	<i>Simple structure</i>	<i>Machine bureaucracy</i>	<i>Organic</i>	<i>Divisionalized</i>
Power centralisations	All at the top	CEO and designers of workflow	Scientists, technocrats and middle managers	Divisional executives
Bureaucratization	Low-informal	Many formal rules, policies and procedures	Organic	Bureaucratic
Specialization	Low	Extensive	Extensive	Extensive
Differentiation	Minimal	Moderate	Very high	High
Integration and coordination of effort	By CEO via direct supervision	By technocrats via formal procedures	By integrating personnel, task forces via mutual adjustment	By formal committees via plan and budgets
Information Systems	Crude, informal	Cost controls and budgets	Informal scanning, open communications	Management information systems and profit centres
<i>Environmental dimensions</i>				
Technology	Simple, custom	Mass production, large batch/line	Sophisticated product, automated or custom	Varies
Competition	Extreme	High	Moderate	Varies
Dynamism/uncertainty	Moderate	Very low	Very high	Varies
Growth	Varies	Slow	Rapid	Varies
Concentration ratio	Very low	High	Varies	Varies
Barriers to Entry	None	Scales barriers	Knowledge barriers	Varies
Business-level strategies				Corporate-level Strategy
<i>Favoured Strategy</i>	Niche differentiation	Cost leadership	Innovative differentiation	Conglomeration
Marketing emphasis	Quality, service, convenience	Low price	New products, high quality	Image
Production emphasis	Economy	Efficiency	Flexibility	Vertical integration
Asset management	Parsimony	Intensity	Parsimony	Varies
Innovation and R&D	Little	Almost none	Very high	Low to moderate
Product-market scope	Very narrow	Average	Average	Very broad

Source: Miller, 1986, p.242

2.5 Classification Schemes and Systems: Typologies and Taxonomies

Preceding sections of this chapter have been concerned with establishing an understanding of the concept of strategy, through definition and an appreciation of its importance, as well as examining the various 'drivers' which shape and determine strategic direction and content. In this section, the attention shifts to the question of content, by exploring the options available to strategic decision makers. This is undertaken by exploring the literature surrounding configurations such as typologies, taxonomies, and other systems of classification. The section therefore reviews the most significant and useful, in terms of the direction of the research, systems of classification. In doing so, it fulfils two crucial roles within this thesis. Firstly, it continues the work of this chapter, by exploring a key area in the strategic management literature, and secondly, it provides a series of analytical frameworks, which will be used to shape the design of the forthcoming research.

Before beginning this part of the review it is necessary to clarify two key issues that require consideration. The first concerns the different levels of the organisation at which authors have targeted systems of classification, and by implication at which levels strategy making can occur. The second concerns the purpose authors have intended objectives for the various systems of classification.

2.5.1 Different Levels of Classification

Earlier in the chapter, the distinction between corporate and business level strategy was presented (Section 2.1.1.6). This definition, drawn from that developed by Bourgeois (1996) and supported by Grant (1998), identified corporate level strategy as being concerned with 'domain selection', and business or competitive level strategy as being concerned with 'domain navigation'. Therefore, strategy making at the corporate level is concerned with decisions of which industry a firm will compete in, while strategy making at the business level is concerned with decisions of how to compete within the chosen industry. Authors have followed this prescription, and have developed systems of classification which have been targeted at specific levels of strategic decision making, and consequently the discussion follows these developments. In Section 2.5.4, therefore, corporate level configurations are presented, while in Section 2.5.5 business level configurations are explored. In addition Section 2.5.6 reviews the work of authors such as Miles and Snow (1978) and Mintzberg (1988), who have attempted to develop systems of classification which address 'Organisational Systems'.

2.5.2 The Aims and Significance of Classification Systems/Schemes

This section attempts to clarify both the aims, and the significance, of classification

systems and schemes, and to define the concept of generic strategy, which is widely used in this research. Systems of classification, and generic strategies, have become an ubiquitous presence within the management literature, despite some concern for their validity. As Mintzberg notes “almost every serious author concerned with ‘content’...has his, her or its own list of strategies commonly pursued by different organisations” (Mintzberg, 1996, p.83). He acknowledges that there may be an anxiety about the general validity of any such system, based upon authors’ tendency to “almost always focus narrowly on special types of strategies or else aggregate arbitrarily across all varieties of them with no real order” (Mintzberg, 1996, p.83). These anxieties will be returned to.

As with the issue of competencies and capabilities discussed earlier (Section 2.2), the terminology of classification is complicated, and often contradictory. The author believes that it is necessary to establish clear definitions that will be used in the forthcoming analysis and so refers to the work of Chrisman *et al* (1988), which addresses this subject in great detail. The definitions furnished by Chrisman *et al* are of interest in two respects: the distinction between classification systems and classification schemes, and their full explanation of the attributes of ‘taxa’ in a taxonomy. The subject of taxa, taxonomies, and typologies is addressed below in Section 2.5.3, so it is to the distinction between classification schemes and systems that the discussion now turns.

According to Chrisman *et al*, to be effective a classification system “must be based on the key characteristics of the entities that are classified” (Chrisman *et al*, 1988, p.416), a definition that they argue is based on the original writings on classification by Darwin. In a business context, these key characteristics measure “the theoretically and practically important within-group similarities and between-group differences of organizational strategies” (Chrisman *et al*, 1988, p.416-417). To be considered a system “all characteristics describing scope, segment differentiation, and types of competitive weapons” should be included (Chrisman *et al*, 1988, p.417). Failure to be inclusive downgrades a classification system to the designation of classification scheme. By definition, therefore, a classification scheme is a typology which seeks to classify aspects of intergroup relationships, but which does not describe all aspects of those relationships. Hence, Chrisman *et al* argue Porter’s (1980) generic strategy is not a system, as it is not internally homogeneous. Furthermore is not collectively exhaustive, as it does not possess all of the key characteristics to fulfil its stated task⁵ (Chrisman *et al*, 1988, p.419).

5

This is due to the typology’s failure to include segment differentiation, as will be discussed below.

Additionally, Abell's (1980) typology similarly is considered a scheme as it is not internally homogeneous, is not labelled consistently in respect of the existing literature, and also does not possess all of the key characteristics required for its task⁶ (Chrisman *et al*, 1988, p.421). By this definition, therefore, there are no classification systems presented in this analysis, with the exception of Chrisman *et al*'s own, which is argued to overcome the deficiencies of Porter and Abell, by meeting all of the attributes of a classification system⁷, although in respect of its parsimoniousness this is open to question. Chrisman *et al*'s taxonomy is discussed more fully in Section 2.5.5.4. Henceforth all references to classification constructs will be referred to as schemes, rather than systems, with the exception of Chrisman *et al*'s own. The generic term 'systems of classification' will be used to discuss both classification systems and schemes.

What then are the objectives of classification schemes? Broadly, there are two. The first of these is an attempt by an author to provide a definitive⁸ series of options available to decision makers, in particular organisational situations. As stated in Section 2.5.1, these situations may relate to corporate, business or whole strategic systems decision making, and have been adapted by other authors for use in specific industry conditions. For example, Chrisman *et al* (1988, p.413) note the work of authors such as Hofer (1980) in developing systems of classification for application in turnaround situations, Harrigan (1980, 1984) in declining industries and in cases of vertical integration, Woo and Cooper (1982) in low-share businesses, and Galbraith and Schendal (1983) and Robinson and Pearce (1985) in manufacturing businesses. The second objective, in most cases at least, is to provide an analytical tool. This aspect, as will be demonstrated, is truer of the business level systems of classification reviewed here than those at a corporate level, and seeks to enable the observer to understand organisational success or failure by reference to a framework. Hence Porter titles his seminal 1980 work "Competitive Strategy: Techniques for analysing industries and competitors" (Porter, 1980). Systems of

6

A product of the typology's lack of all available competitive weapons.

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The ten attributes of an effective classification system are that it is mutually exclusive, internally homogeneous, collectively exhaustive, stable, relevantly titled, possesses all of the key characteristics, is aimed generally rather than specifically, is parsimonious, allows for a hierarchy, and is timeless (Chrisman *et al*, 1988, p.416-417).

8

Some authors, such as Porter, argue for the definitive nature of their work (Porter, 1980, p.35), while others such as Miles and Snow recognise the likelihood that their work will be developed by other authors (Miles and Snow, 1978, p.166). The use of the term 'definitive' is therefore a generalisation, albeit calculated to reflect the general position of authors in their field.

classification can therefore be used as a checklist against which options can be adduced, and an analytical tool against which performance can be assessed.

As stated previously, systems of classification have been, and remain extremely popular. Partially, this popularity can be explained by the desire of the social scientist or business researcher to develop and expand upon the subject using methods which approximate to those found in the natural sciences (Cooper and Emory, 1995⁹). The vocabulary of this part of the strategy literature is liberally distributed with terms such as 'classification', 'configuration', 'typology' and 'taxonomy', all of which originated in the natural sciences. The desire to place observable behaviour in organisations into 'typologies', for example, is also seeking to a certain extent to introduce an approximation of the 'governing laws' that are present in the natural sciences, to this field.

The origins of many of the pre-eminent systems of classification, it has been suggested, can be traced to the late 1960's/early 1970's (Hoskisson *et al*, 1999). This development within the literature, towards more quantifiable approaches allowing more rigorous statistical analysis, has been portrayed as a reaction against the perception of management research as an unscientific endeavour, lacking in real worth or validity. Systems of classification, while adopting scientific terminology, were therefore also striving for scientific validity.

Systems of classification therefore imply the ability of the researcher to impose order upon the diffuse concepts and relationships of strategy, resource, environment, and human interactions. The intention is that these concepts can therefore be (i) understood, (ii) measured/classified, and (iii) predicted. Systems of classification therefore strive to provide the management sciences with a set of 'governing laws', the prior possession of which is felt to provide the natural sciences with their inherent validity, and implied superiority of procedure and outcome, over the social sciences. However, it may be noted that the problems most generally associated with system building in social sciences concern the absences of governing laws, or at least a general agreement over what form these governing laws take, which arguably undermines the attempt to establish scientific validity. Researchers are, it is argued "committed to a particular school of thought or methodology....(and as a result of which)...very often the lack of understanding of the precise nature of each archetype generates a great deal of criticism and cynicism" (Eilon,

9

Cooper and Emory note that "good research uses the scientific method" (Cooper and Emory, 1995, p.12). The question of the ability of social science to achieve scientific approaches to research is addressed at length in Section 3.1, of Chapter Three.

1974, p.9) and this damages the overall perception of social science research as a valid discipline.

This absence reflects a situation where writers in the field have failed to arrived at a methodological approach to research which applies a single method to the consensual satisfaction of all exponents of research in the field. In the following chapter, the question of competing schools of research philosophy will be covered, to throw more light upon this subject (Section 3.1). For the purposes of this review, however, it is sufficient to understand that writers are attempting to create a fully validated series of governing laws, to understand the interactions and behaviour of organisations in the market place.

On a more purely practical level, systems of classification provide an antidote to the problem identified by Chandler (1962). Chandler argued that the process of strategy formulation was unique to each organisation, due to the infinite number of permutations of environment, personality, resource, products, processes and so on that must be considered in the strategic formulation process. He argued that the only way of making sense of that number of permutations was to develop certain generic archetypes which allowed the most commonly reoccurring permutations to be identified, classified, and understood. Other authors, especially those whose work is reviewed below, have argued that this form of classification is fully justified, and indeed approximates the process generally used throughout the scientific community (Smith *et al*, 1986). Systems of classification, and specifically generic strategies, have been further identified as representing a reaction to a failure in the literature of economics. McGee and Thomas point to a 'gaping hole' "left by economists' traditional focus on the two polar cases of pure competition and pure monopoly" (McGee and Thomas, 1986, p.141), and argue that there is a need to understand what occurs in between. Hence the development of the field.

As noted earlier, one basic reservation associated with systems of classification, and generic approaches in particular, is their tendency to adopt either too narrow, or in some cases too broad, a scope. Ketchen *et al* (1993) provide an explanation for how this difference can emerge, when they note that there are two major approaches to the definition and comparison of organisational configuration: an inductive approach which "concentrates upon maximising internal validity while sacrificing generalisability"; and a deductive approach which "focuses on producing configurations generated deductively from prior theory", and consequently which produces configurations which "apply broadly and are not dependent on particular industry contexts" (Ketchen *et al*, 1993, p.1280).

Clearly, criticisms flow from the scope of either approach. Narrow, industry focussed studies can not be said to apply to other industries without empirical testing. Broader models, based upon greater generalisation can not hope "to be simultaneously general, accurate and simple" (Weick, 1979, p.35), and therefore have lead to criticism for producing "trivial, inconclusive research" (Weick, 1979, p.36), expressing a view also shared by White (1986, p.220). Any use, therefore, of systems of classification or generic strategies must acknowledge and explicitly recognise "the necessary trade-offs" that using such approaches entail (Miller and Dess, 1993, p.554). One interesting aspect of this debate on applicability is the view developed by Douglas and Rhee (1989), who argue that there is an inherent bias towards 'Americanism' in work of this kind. Most writers draw from experience, or empirical evidence, generated in the USA and therefore the use of such systems should arguably be confined to situations similar to that of the USA, or at least with an awareness that there may be a need to account for bias. This inevitably impacts upon the ongoing applications of approaches of this kind. Indeed the same could be said of many of the dominant theories across all management disciplines.

A further problem with generic strategies is essentially a by-product of the competition between differing research philosophies, but is also part of the nature of research in the business arena itself. This problem relates to the fact that many of the generic models developed by authors are in direct competition with each other. This suggests that one implied aspect of the scientific method – that researchers work together to create a better understanding – is not always evident in the business environment. As will become clear in the following discussion, there is some evidence of writers adopting the Newtonian approach¹⁰, but too often this is not the case.

2.5.3 The Features of Classification Schemes

The preceding section sought to identify the rationale which has developed in the literature to justify the development of systems of classification. This section seeks to identify the features of these schemes and systems, to explore the differing types, and their accompanying vocabulary. It was noted above that systems of classification tended to be aimed at fulfilling two disparate roles: that of checklist, and of analytical tool. This section is more concerned with their use as an analytical tool. Under this guise, what is sought from systems of classification are approaches which can identify and explain commonly occurring clusters of aspects of organisational strategies, structures and

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Newton attributed his achievements to "standing on the shoulders of giants", a reference to building upon the work of predecessors, and is the widely quoted symbol of scientific progress. The full quote reads "If I have seen further it is by standing on y^e shoulders of giants", Newton to Hooke, 5 Feb. 1676.

processes (Miller and Mintzberg, 1983; Miller, 1987; Mintzberg, 1990a).

The rationale underpinning approaches of this kind is summarised by Ketchen *et al* (1993): “at the heart of the configurational perspective is the assumption that increased understanding of organisational phenomena can be better achieved by identifying distinct, internally consistent sets of firms than by seeking to uncover relationships that hold across all organisations. Although the configurational perspective emphasises codification – the classification of organisations into typologies and taxonomies – prediction is also possible when appropriate theory guides the process of defining configurations” (Ketchen *et al*, 1993, p.1278). Generic strategies therefore identify distinct types of firms, explain why they are distinct and the elements of their shared distinction, and how they interact with other firms that exist within their industry but not within their distinct group. In this sense, generic implies membership of a group, rather than specific individuality. They may also be used to predict behaviour. Chrisman *et al* identify four objectives for a classification system:

- ▶ differentiation,
- ▶ generalisation,
- ▶ identification, and
- ▶ information retrieval (Chrisman *et al*, 1988, p.416-5).

Ketchen *et al* drew attention to two distinct forms of classification: typologies and taxonomies, which are often erroneously used interchangeably (Ketchen *et al*, 1993, p.1278-9). The difference between a typology and a taxonomy is explored with reference to the work of Miller (1996, 1999), who suggests that the literature’s tendency to develop either approach in isolation contributes to its shortcomings.

Typologies, according to Miller, at their best are memorable, neat and evocative (Miller, 1999, p.27). They differentiate between types of strategy, organisations and decision-making styles, and if successful, they show “how and why the attributes in each of their types interrelate” (Miller, 1996). Prominent examples of typology are those presented by Burns and Stalker (1961), Miles and Snow (1978), and Mintzberg (1979). Typology therefore is the study of types and of their succession or sequence. When typologies are effective they are:

- ▶ well informed by theory, and hence draw distinctions and relationships of conceptual importance;
- ▶ invoke contrasts that facilitate empirical progress, and which resolve persistent debates and conflicts; and are
- ▶ clearly assembled in order that the elements and variables used to describe each

type are “shown to cohere in thematic and interesting ways” that have important conceptual, evolutionary or normative implications (Miller, 1996, p.507).

In other words, typologies should build upon existing concepts and themes in order to make an active contribution to the development of knowledge. Typologies which are not grounded in theory will lack the essential attributes that ensure external and internal validity. Empirical testing should be undertaken to assure validity.

Taxonomies, according to Miller, differ from typologies in being more empirical and more numerical. They use statistical techniques to test for evidence of relationships between firms in an industry to identify ‘natural clusters’. Taxonomy therefore provides a classification of categories and their principles, including an explanation of their formation. They are therefore more quantitative than typologies. According to Miller: “the merit of the taxonomy approach is that when it is well executed it discovers reliable and conceptually significant clusterings of attributes” (Miller, 1996, p.507). Miller notes that taxonomies have come under considerable criticism principally for promising more than they are able to deliver. He notes the work of Barney and Hoskisson (1990), and McGee and Thomas (1986) who criticise taxonomies for a lack of theoretical significance, several authors including Ketchen *et al* (1993) who criticise taxonomies for being arbitrary and narrow, and Hatten and Hatten’s (1987) concern for their output of unreliable or unstable results.

In Miller’s analysis, most typologies and taxonomies fail to achieve their objectives. As configurations seek to describe organisational wholes “more should be done to discover their thematic and systemic aspects - to probe into just why and how their elements interrelate and complement each other to produce the driving characteristics of an enterprise” (Miller, 1996, p.507). These elements Miller describes as ‘organizing themes’, key influences which drive a particular strategy “placing a marked emphasis upon some tactics and a supportive co-alignment among many others” (Miller, 1996, p.507). Miller notes that qualitative studies using ‘rich historical data from individual companies’ provide assistance in discovering such themes, and hence an understanding of the inter-relationships of configurations. Having determined the members of a configuration, Miller argues, multivariate analysis “can disclose important quantitative relationships among their elements that confirm the themes”. In such a way, the elements of typology and taxonomy are required to be joined to ensure the validity of the examination. The importance of the determination of organising themes is recognised by the author, and will become a focus of the research in relation to Objective Three and Supporting Objective One throughout this thesis.

Having reviewed the features of systems of classification it is now opportune to consider the work of some of the key authors in the field. The next three sections present systems attempting to offer strategic options and analytical tools at three different levels: the corporate, the business, and the whole systems level, incorporating both corporate and business level decisions. Within each section the utility and objectives of each approach will be discussed, and a determination of the appropriate designation reached.

2.5.4 Corporate Level Classification Schemes

As stated previously, the author adopts a definition of corporate strategy as involving decisions which “define the scope of the firm in terms of the industries and markets in which it competes” (Grant, 1998, p.19), or domain selection (Bourgeois, 1996). This definition is extended by reference to the authors Pearce and Robinson, whose system of classification of ‘grand or master’ strategies (Pearce and Robinson, 1994, p.223), forms the basis of this section of the review. Corporate strategy decisions involve, they argue, setting the “basic direction for strategic actions”, and provide “the basis of coordinated and sustained efforts directed toward achieving long term business objectives” (Pearce and Robinson, 1994, p.223).

The significance of considering the views of Pearce and Robinson at this time result from their work on the question of which options are available to companies in the selection of corporate strategies. They undertook an analysis of the literature with respect to viable options in domain selection, and have identified what they believe to be a definitive list of fourteen grand strategies. This work is essentially a synthesis of the observations and conclusions drawn from earlier authors, initially starting with Ansoff’s work with growth vector components (1965), and a range of other authors such as Pearce and Harvey (1990), Cooper (1979, 1983), Carroll (1984) in relation to concentrated growth approaches, Kotler (1987) in relation to market and product development, Perry and Porter (1985) in relation to horizontal integration, Harrigan (1984) in relation to vertical integration, Devlin and Bleackley (1988) in relation to concentric diversification, Pearce and Robbins (1993) and Robbins and Pearce (1994) in relation to turnaround approaches, Gomes-Casseres (1989) in relation to joint ventures, Clarke and Gall (1987) and Chastain (1987) in relation to divestment, Glueck (1980), Schendal *et al* (1976) and Schmidt (1987) in relation to joint ventures, and Lei and Slocum (1991) in relation to strategic alliances.

Pearce and Robinson’s work is essentially therefore a list of options, which in synthesising the work of many authors attempts to identify an extended portfolio, or menu, of strategic options available to corporate strategy decision makers seeking to establish their strategic

domain. This section now explores their work in depth. The reason for this depth of interest is fourfold. Firstly, because the strategic options comprising the configuration are all well known approaches which are routinely mentioned in the strategy literature, and which are extensively referred to throughout this research. Therefore, a clear definition at this stage is beneficial. Secondly, the framework presented by Pearce and Robinson is used extensively to map the strategic decisions taken by the companies under investigation within the thesis, in pursuit of the research's first objective. The rationale underpinning the decision to utilise this framework is explored in full in Section 3.4.3.2. Thirdly, a full definition of these corporate strategic options enables a clear distinction to be drawn with the business level options to be presented in Section 2.5.5. Finally, that the framework developed by Pearce and Robinson, from original work by Pearce (1982) which was later extended (Pearce *et al*, 1987), continues to be a frequently cited reference and an important influence on current management research (Richard, 2000; Kumar and Subramanian, 2000; Hatfield *et al*, 1998; Kumar *et al*, 1998; Judge and Krishnan, 1994; Pearce and Robbins, 1993; Narver and Slater, 1990, among others).

Before presenting the classification scheme, it is necessary to comment upon its objective. The scheme suggested by Pearce and Robinson is concerned with domain selection, and undertakes this objective by presenting a series of options from which an organisation can select. It is therefore less of an analytical tool, and more of a checklist. However, the author believes that this additional utility can potentially be added to the model by a process of extending the work started by Pearce and Robinson. This process, of identifying certain generic combinations of grand strategies, was alluded to in the original work but not made explicit (Pearce and Robinson, 1994, p.246), although the authors did develop a series of grand strategy matrices (Pearce and Robinson, 1994, p.264-265). This aspect of the analysis of Pearce and Robinson's work will be returned to in Section 2.5.4.15. In addition, a possible difficulty the author identifies with respect to Pearce and Robinson's view that any one of the fourteen grand strategies "could serve as the basis for achieving the major long-term objectives of a single firm" (Pearce and Robinson, 1994, p.224) is discussed and critiqued.

The fourteen grand corporate strategies suggested by Pearce and Robinson were:

i	Concentrated Growth	viii	Conglomerate Diversification
ii	Market Development	ix	Turnaround
iii	Product Development	x	Divestment
iv	Innovation	xi	Liquidation
v	Horizontal Integration	xii	Joint Ventures
vi	Vertical Integration	xiii	Strategic Alliances
vii	Concentric Diversification	xiv	Consortia

Each of these strategic options will be defined with respect to four key variables: the basic premise underlying the option; the characteristics necessary for that strategic option to succeed; the most favourable market conditions for the use of the option; and the risks and rewards for following such an approach. These definitions appear in Table 2.7. A summary for each option is also provided. The grand strategies identified by Pearce and Robinson are of considerable importance to this research, and it would have been preferable to include a fuller exploration. However, such an extension of this review was not practical in the present work.

2.5.4.1 Concentrated Growth

Pearce and Robinson hold the view that for many organisations, a concentrated growth approach is very often the most viable option. It favours organisations which have a clear understanding of their market, and are able to exploit that understanding by making a better product offering, based upon the effectiveness of its operations and promotional ability. Concentrated growth can be a niche strategy, where more generalist organisation's have overlooked need, but it is unlikely to be a successful approach in a dynamic environment, unless it is extended. A concentrated growth approach involves efficiency of operations, as well as organisational effectiveness¹¹. It also involves inhabiting a narrower domain, either in terms of product offering, or market definition. Overall, a concentrated growth approach aims to minimise risk. It is clearly associated with a competitive forces, rather than a resource based, view of a firm's strategy.

2.5.4.2 Market Development

The market development approach presents a company with the most risk averse method of extending a concentrated growth approach outside of its natural market area. Providing the company has good market intelligence, has access to effective distribution channels and promotional efforts, has the resources to support a new campaign, and that barriers to entry are not too strong, this approach represents the most effective way of working an organisation's core competencies and resources more effectively. In effect, a market development approach involves widening the domain of a concentrated growth approach. It can therefore be seen as embracing a resource based view of the firm.

2.5.4.3 Product Development

A product development approach involves a company seeking to strengthen its hold over

11

An aspect to which Pearce and Robinson paid less attention, preferring to focus upon the potential of marketing to enhance the strategy. The author argues that improved efficient and effective operations are naturally to be located within a concentrated growth grand strategy.

its existing domain, by improving its product offering possibly to head off a potential threat from a rival. The approach does not imply a widening of its product domain, unless the product development approach runs parallel to a market development approach. The approach is more risk apparent than a concentrated growth approach: there are of course famous examples of instances where a product development approach has resulted in a disastrous outcome for the company seeking to employ it¹², but suggests changing circumstances in its operating environment, or the approaching end of a product's natural life cycle. The approach clearly fits with a competitive forces concept of strategy making within the firm.

2.5.4.4 Innovation

An innovative approach can have high risks but also high rewards. It requires a company to be fully aware of its competencies and resources, but may require the sort of swift action which mediates against a full audit of capabilities and resources. By innovating effectively, a company may be able to establish barriers to entry to prevent other companies benefiting from its efforts. However, empirical evidence suggests that most innovations do not bring benefits, and so an innovative approach should only be considered with caution, unless the company is supremely confident in its capabilities. Innovation could fit with either a competitive forces or a resource based view of strategy within the firm.

2.5.4.5 Horizontal Integration

Horizontal integration is a strategic option open to companies wishing to grow their market domains, but which are unwilling or unable to do so organically. The purchase of an organisation occupying the same level of its market, and performing compatible activities, brings with it the potential for exploiting greater market share and reduced costs of operation, but must be weighted against the potential for such a move to result in incompatible cultures and systems, providing a drain on the resources brought to bear on the project. Success is clearly therefore dependent upon understanding both the capability of existing resources, and the market that a firm is seeking to serve.

2.5.4.6 Vertical Integration

Vertical integration is a strategy available to companies wishing to extend their business activities into areas where they have no existing expertise, but which have a direct impact

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The case of the Coca Cola Corporation and the introduction of New Coke provides a salutary lesson for companies attempting a product development approach (Pendergrast, 1994).

upon their ability to function with reduced risk in their key business activities. Vertical integration is a potentially risky strategic option, due to all of the well documented problems of integrating two companies systems and cultures, but may be overcome by introducing a holding company structure, and making the new acquisition a subsidiary rather than seeking to integrate it into the organisation. Vertical integration aims to reduce the risks associated with a company's business by ensuring that its lines of supply, or the demands for its products are guaranteed. This approach holds more potential in competitive markets where there is a reduced threat of opposition to takeovers, which may appear to lead to the exercise of monopoly powers. Vertical integration is perhaps more commonly associated with a competitive forces concept of firm strategy. A model favouring vertical integration has been presented by the petroleum industry (Edwards *et al*, 2000, Obaidan and Scully, 1993, Levin, 1981), where companies have identified the importance of establishing a presence at each stage of the process, as the 'location' of profitability has been found to 'shift'¹³. Industrial economists, like Helm, have argued that companies operating within industries prone to risk will inevitably seek solutions based upon vertical integration as a means of systematically addressing their exposure to that risk (Helm and Jenkinson, 1997).

2.5.4.7 Concentric Diversification

Concentric diversification is aimed at taking over a company that complements the functions of the purchaser, and provides an opportunity to add value. This would be principally achieved through opening up possibilities for synergy. Diversification differs from integration in that the company being purchased will have no formal linkages to the core business of the purchaser, and therefore even concentric diversification may be subject to the inherent risks of making such an investment. Diversification to benefit performance in an existing market would appear to be aligned to a competitive forces approach. Diversification to enable existing resources to be redeployed would be aligned to a resource based view of strategy.

2.5.4.8 Conglomerate Diversification

A high risk option, only open to organisations with considerable financial resources able to locate suitable investment opportunities with the aim of generating high returns which are not available to them from investing in their core businesses. Diversification of this

13

Due to vagaries in the market, such as ease of extraction, seasonable demand, competitor activity or act of government the location of profits can be found in extraction, refinement, or wholesale or retail sale to consumers. Therefore, in order to ensure that profit taking opportunities are not missed, a petroleum company needs to be present at each stage.

kind is a specialised talent, and very large scale investments tend to be undertaken by companies that occupy a specialist position in the economy. This option fits a resource based view of strategy, if a firm's principal resources involve the due diligence capability and large financial holdings mentioned above.

2.5.4.9 Turnaround

Turnaround as a strategy is a signal that the company is not performing to expectations, but is also a signal that the management have realised the shortcomings of its current set of strategies. Turnaround involves managed cost and asset reduction to stabilize the company, and establish a new operating climate in which it may begin to seek its key organisational objectives once again. Pearce and Robinson describe this process as being "planned retrenchment" which results initially at least in "near-term financial stabilization" (Pearce and Robinson, 1994, p.237). Charles Hofer reaffirms this point when he states that "what is needed most in a turnaround situation is some clear-cut strategy for guiding all organisational actions so that scarce resources are not dissipated in unproductive ways" (Hofer, 1980, p.20).

2.5.4.10 Divestiture

Divestiture can be selected as a strategic option for either positive or negative reasons. Business units may be divested to take advantage of a favourable valuation of the elements to be divested, or as part of a 'make-or-buy' decision. Alternatively, they may be divested as a consequence of an ill-judged integration or differentiation strategy, or as a sign that a turnaround strategy has not achieved its hoped for objective. Divestiture is not generally a strategic option that a company will set out to pursue¹⁴.

2.5.4.11 Liquidation

Liquidation as a grand strategy is perhaps a reflection of the failure of other strategic approaches. Liquidation involves the sale of a company, but not as a going concern. Liquidation is, according to Pearce and Robinson "an admission of failure" which would be taken only as a last resort to avoid damaging the asset value of the company to existing stakeholders, through a planned divestiture of all of the company's assets. Further discussion of this grand strategy is not deemed necessary.

14

The only instances where this would not be the case would be the actions of so-called 'corporate raiders' who buy failing companies with the sole intention of improving their profitability before selling them on to the highest bidder. Most famously, this sort of behaviour has been identified with Hanson.

Table 2.7: Features of Grand Strategies

Section Reference	Grand Strategy	Basic Premise	Characteristics Necessary for Success	Favourable Market Conditions	Risks and Rewards
2.5.4.1	Concentrated Growth	Making its existing share of the market work harder. Also known as 'market penetration' or Concentration Strategy'. Utilising effective management approaches.	Ability to assess market need, improve knowledge of buyer behaviour, enhance price sensitivity, market itself effectively. Limitation of scope of strategy. Focussed upon building core competencies.	Market resistant to technological advances; mature markets; industry not product saturated; growth potential; distinctive; stability; unsatisfied niche markets	Use in stable industry would see great potential reward; use in changing environment would see problems; over commitment may lead to overlooking more promising environment.
2.5.4.2	Market Development	An extension of the concentrated growth approach, aimed at reaching new markets with existing products.	Transportability or easy adaptability. High level of environmental monitoring capability. Promotion capability.	Same as in 2.5.4.1, but low barriers to entry, and gaps in existing provision.	Relatively few risks, great potential to exploit existing resources and capabilities.
2.5.4.3	Product Development	The substantial modification of an existing product/development of a new product, to be marketed to existing customers.	An existing customer base; a product which will have appeal to this customer base. Requires environmental scanning capability. Innovation.	Same as success characteristics: Company will pursue if its concentrated growth approach is failing. Otherwise, same as concentrated growth.	Relatively low, if company understands its customers. Rewards include deepening hold over market, building barriers to entry, exploiting its resources.
2.5.4.4	Innovation	A means of overcoming instability in operating domain. Seeking first-mover advantage. Evident in new product or service development.	Availability of appropriate internal resources. Market uncertainty. Unrealised market demand. Creativity. Innovation seeks to create a new market, or make offerings of a competitor obsolete. Often seen as a last resort option.	High risk, so assessing favourable conditions is difficult. But opportunity must be evident. Clear understanding of the market, and of resource implications. Managerial competence.	Considerable risk, if what is intended is not fully understood, or possesses inappropriate resources. Rewards can, however be considerable if product finds its market.

Table 2.7: Features of Grand Strategies continued

2.5.4.5	Horizontal Integration	Growth through acquisition of organisations at the same stage of production-marketing chain. Aim to increase market share.	Expected benefits must outweigh cost of acquisition. Increased market share, or opportunity for synergy. Capability to manage new demand, and the merger. Shared attributes.	Markets where benefits following removal of competition, either from increased sales or reduced costs. These benefits must be cheaper to buy than develop organically.	Overestimating value to be achieved. Underestimating associated problems of fit. Increased dependence upon industry in decline. Benefits include wider scope for concentrated growth strategy, including increased market share, increased effectiveness or reduced costs.
2.5.4.6	Vertical Integration	Growth through acquisition of supplier of raw materials or customer for outputs. Aimed at reducing risk.	Availability of either suppliers or customers at the right price, in order to offset uncertainty. Particularly important if number of suppliers or customers is small.	Costs or profits indicate that power of buyers or power of customers too great. Overly turbulent environment. Hope that control will reduce turbulence. Possibly anti-competitive.	Possession of appropriate expertise, or competencies. May undermine companies existing successful relationship with market. Can improve management of risk. Can take profits wherever they are offered.
2.5.4.7	Concentric Diversification	A departure from existing business, although related in some respect. Variety of reasons can lead to decision but synergy crucial here. Some degree of commonality.	Compatibility is key, in either products, markets, distribution channels, technology, resources. Aim synergy, but not interdependence.	Compatible companies, offering compatibility, at an agreeable price. Transferable capabilities.	Risk exists if cost of investment outweighs benefit achieved. Can be overcome in negotiation process. High value added can result from effective synergy.

Table 2.7: Features of Grand Strategies

2.5.4.8	Conglomerate Diversification	Undertaken to take advantage of investment opportunity. Enhanced profitability. No obvious synergy.	Considerable financial resources. Skills in portfolio management, including balanced portfolio. Capability in due diligence. Strong lines of credit.	Organisation generating high profits, seeking advantageous investment opportunity, or faced with cash crisis needing income generator.	High risk, calling for specialised skills. Requires considerable resource application, and high evaluative capability. Benefits include enhanced cash flow or improved return on investments.
2.5.4.9	Turnaround	Utilised if performance weak, or if in terminal decline. Aimed at fortifying distinctive competencies. Attempted through either cost or asset reduction.	Motivated by failure, approach seeks effective management. Remedial actions. Need to be aware of need for such action, and focussed upon demands of performance improvement. Planned retrenchment.	Company would hope to avoid necessity, but if necessary would hope to anticipate need before too much damage done. Decision based upon sound judgement. Severity will depend upon severity of problem to be remedied.	Risks can be greater in not following turnaround approach when perceived necessary. Ill-judged retrenchment can make situation worse. Rewards may be survival or improved, leaner, performance.
2.5.4.10	Divestiture	Sale of a firm, or a component part of a firm. May follow failure of turnaround, or may involve sale of non-core business, or business whose value is greater to someone else.	Not generally an option company will set out to pursue. Tend to arise as an option, for advantageous or disadvantageous reasons. May see a failed takeover being divested, a partial sale of a non-core businesses following a takeover, or an offer too good to refuse.	Needs to be a buyer which matches the company's valuation of its asset.	If asset sold when true value not assessed, may be costly to reverse. This in particular with 'make or buy' decisions. Judicious divestment may bring considerable benefit.
2.5.4.11	Liquidation	Reflection of failure elsewhere.	Sale of the company.	Indicates failure.	Attempt to realise as much value for stakeholders.

Table 2.7: Features of Grand Strategies continued

2.5.4.12	Joint Ventures	Attempt to overcome weakness/achieve opportunity by two or more companies working together. Separate entities/joint ownership. Risk averse means of market development.	Complementary skills, resources. Willingness to cede some control. Do require continued support despite being separate from core business.	Viable solution to desire to do business across borders, when other solutions too expensive. May enable technology transfer.	Risk of lost capital, operational control, or goodwill. Rewards may be highly compensatory, and relatively risk free. Market development.
2.5.4.13	Strategic Alliances	Differ from joint ventures in that equity positions not taken. Licensing agreements. Means of getting products to new market with limited risk.	Relatively risk free. Locating suitable partner key concern. If successful, method of market development.	Opportunity to overcome obstacles, such as import quotas. May be option where joint ventures would not work.	Harm to reputation. May enable further exploitation of existing products/brands, at low risk.
2.5.4.14	Consortia	Relationship between several organisations, developed to bid for large projects. Complementary skills. Opening new opportunities to existing skills.	Must have all skills necessary to deliver contract. Must be able to complete on time and cost. Company must demonstrate what able to contribute to project. Project management the key factor.	Demand for such alliances, so economic growth. Must possess right capabilities to play active role. Failure can drag project back.	Group protection, but also significant demands. Provides an arena in which to exploit core competencies.

Source: Adapted from Pearce and Robinson, 1994, p. 223-245

2.5.4.12 Joint Ventures

Joint ventures are partnerships between two or more companies resulting in the creation of a third entity for the purpose of pursuing common objectives. They are risk averse, and can facilitate an organisation's ability to pursue, for example, a market development strategy that would otherwise have been beyond it. Essentially, joint ventures can fit both a competitive forces or a resource based view of strategy.

2.5.4.13 Strategic Alliances

A risk averse solution to market development objectives that may prove intractable due to difficulties encountered attempting to enter the new market. The most common form of alliance would take the form of a formal licencing arrangement, allowing a strategic partner to act as the agent of the first company in their home territory, paying a premium to their strategic partner.

2.5.4.14 Consortia

Consortia are large scale alliances between companies possessing compatible skills and resources aimed at winning and then fulfilling major contracts. Principally of benefit to organisations seeking market development opportunities at a greater scale than available to them through organic means. Consortia present a viable route through which a more resource based approach could be operated.

2.5.4.15 Feature of the Typology

This detailed review of the Pearce and Robinson list of grand strategies provides this research with a framework against which the strategic content of the RECs can be measured. The need for such a framework and the choice of the Pearce and Robinson list is addressed in Section 3.2. Before moving on to consider similar systems of classification for business level strategies, it is necessary to briefly summarise the features of this typology. Firstly, it is necessary to say that it is a typology rather than a taxonomy. It is clearly neat, memorable and evocative (Miller, 1986), but it does not seek to empirically produce explanations of relationships between the types, and hence is not a taxonomy (Miller, 1986).

The work of Pearce and Robinson is also not a tool by which performance can be assessed. The business level systems of classification which follow all seek a dual utility: acting as a list of available options, and a self contained technique for assessing performance. The Pearce and Robinson approach is simply a list of options. It does not aspire to judge the workings of a company's domain selection. However, Pearce and Robinson do consider the formation of strategy combinations (Pearce and Robinson,

1994, p.246), as discussed earlier. The author believes that to some extent a comprehensive list of strategic combinations could add to the utility of the typology, by indicating a selection of internally valid and viable combinations. This enables the typology to be used as an analytical tool, in conjunction with either a competitive forces or a resource based view of the firm. Such a development would also help towards the achievement of Objective One of this thesis. As such, the author begins the process in Section 2.6 of this chapter, as part of the concluding remarks of this review of the literature.

2.5.5 Business Level Classification Systems and Schemes

As noted previously, the discussion of business strategies in this section concerns those decisions aimed at determining “how the firm competes within a particular industry or market”, and hence with how a firm establishes competitive advantage (Grant, 1998, p.52). Alternatively, Ansoff’s definition of what he terms ‘competitive strategy’¹⁵ is the determination of a strategy “which specifies the distinctive approach which the firm intends to use in order to succeed in each of (its) strategic business areas”, described as corporate strategies in this thesis (Ansoff, 1965, p.111). Specifically, therefore, this section explores strategy approaches that companies may chose to pursue once the decisions regarding corporate strategy discussed in the preceding section have been taken: domain navigation (Bourgeois, 1996).

The development of an understanding of business strategies has evolved over the last four decades. This understanding has developed from the work of Ansoff, through the major contribution of Porter, to a current situation where a wide range of hybrid systems of classification and generic strategy are available within the literature. Arguably, each new development has sought to refine the work of the preceding authors. Within this section, therefore, attention is paid to the work of Ansoff, Porter and to other authors who have either emphasised different aspects of the debate, or who have sought to refine the preceding work. However, it is not possible to present in detail all of the work that has been developed in what is an overcrowded field. Consequently, the work of Abell (1980), Chrisman *et al* (1988), and the synthesis offered by Johnson and Scholes (1999) are also reviewed, with mention being made to the work of other authors as appropriate.

2.5.5.1 The Contribution of Ansoff

The work of Ansoff strongly influenced the direction of the literature on strategy at both

15

but which the author has chosen to term business strategy, as discussed in Section 2.1.1.6.

the corporate and business levels. His influence on the work of Pearce and Robinson, and other writers on corporate strategy classification, in particular through the concept of growth vector components, was mentioned in Section 2.5.4. Ansoff suggested that it was possible to specify the kinds of strategic areas that a company intended to do business in (Ansoff, 1965, p.108). This approach Ansoff described as a 'portfolio strategy'. Within the portfolio strategy, Ansoff identified four components. These were the 'geographical growth vector', 'competitive advantage', 'synergies' and 'strategic flexibility'. It is the first item in the portfolio that is of interest in this section. Ansoff's geographical growth vector identified possible directions for a company's future strategic growth, as can be seen illustrated at Figure 2.4.

Figure 2.4: Ansoff's Growth Vector Components

Product Mission	Present	New
Present	Market Penetration	Product Development
New	Market Development	Diversification

Source: Ansoff, 1965, p.109

The rapid progress of industrial development in the second half of the Twentieth Century prompted his deliberations. In the first half of the Century, he argued, the relative simplicity of products in markets meant that a company's business strategy was largely prescribed. The optimal success strategy was simple. A company had to seek to "minimise the costs of (its) products and sell at a price equal to or less than (its) competitors", an approach he described as a market share or market position strategy (Ansoff, 1965, p.112). This approach relied upon the existence of standardised products, which were not readily differentiable. However, as the Century progressed, the extent to which consumers demanded differentiated products increased, alongside a proliferation of market types and locations, requiring the development of more sophisticated business strategies, as demonstrated in Figure 2.4.

The matrix presented in Figure 2.4 shows a series of options available to an organisation wishing to:

- ▶ increase the returns it receives from its existing products in its existing markets (a market penetration approach);
- ▶ locate new markets for its present products (a market development approach);
- ▶ create new products for its existing market (a product development approach); or

- create new products for new markets (diversification).

In essence, the approaches suggested by Ansoff's growth vector components were precursors of the systems of classification presented in the preceding section. Clearly, the market penetration approach approximates closely to Pearce and Robinson's concentrated growth approach, while market and product development are the same in each scheme, and Ansoff's diversification forms the basis of Pearce and Robinson's concentric and conglomerate diversification options.

However, following on from this 'corporate level' classification scheme, Ansoff suggests a business level classification scheme which was also to be highly influential. As a consequence of the changes in demand patterns and consumer behaviour he detected, Ansoff proposed four possible business strategies, which were:

- a market share maximisation strategy: the traditional approach which aimed to minimise costs, and to sell a product at a lower price than a competitor's;
- growth strategies: which were focussed strategies aimed specifically at raising an organisation's market share through such means as geographic market expansion, market segmentation *et cetera*;
- market differentiation strategies: which aimed at "creating a distinctive image on the minds of potential customers for the firm's products/services" (Ansoff, 1965, p.113); and
- product/service differentiation: aimed at differentiating "the performance of the product/service from the competitors products/services" (Ansoff, 1965, p.113).

Ansoff's principal contribution was therefore to suggest that price alone was no longer necessarily the only issue that a company should consider when deciding how its businesses should try to compete. Differentiating products from those of competitors through the use of such tactics as creating brand awareness, and by differentiating its approach to different segments in the market all became issues that a company needed to consider.

2.5.5.2 The Contribution of Porter

The work begun by Ansoff was built upon most notably by Porter, who developed a more detailed theory from Ansoff's typology which became known as his generic competitive strategy typology. Porter began by taking the stand-point that business strategies (which Porter referred to as competitive strategies) involved "taking offensive or defensive actions to create a defensible position in an industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the firm" (Porter,

1980, p.34). These five competitive forces were those of: the threat of new entrants; the bargaining power of buyers; the threat of substitute products or services; the bargaining power of suppliers; and the rivalry among existing firms. These were discussed above in this chapter's section on drivers of strategy, in Section 2.2.1.

Porter acknowledges Chandler's statement about the singularity of the strategy process, when saying that the best strategy for a firm will ultimately be "an unique construction reflecting its particular circumstances" (Porter, 1980, p.34). However, he also identifies three "internally consistent generic strategies, which can be used singly or in combination, for creating....a defensible position in the long run" and allowing the firm to outperform its competitors (Porter, 1980, p.34). These generic strategies were: overall cost leadership; differentiation; and focus. These concepts are well known, and so it is not proposed to explain them in great detail, although some explanation is necessary. The key requirements for a company seeking to utilise each approach are presented in Table 2.8, while some of the key conditions and implications of the pursuit of each strategy are presented in Table 2.9. Both tables are then briefly discussed. Readers wishing for a more detailed explanation are referred back to the original text.

Table 2.8: Requirements of Pursuing Porter's Competitive Strategies

Generic Strategy	Commonly Required Skills and Resources	Common Organisational Requirements
Overall Cost Leadership	Sustained capital investment and access to capital Process engineering skills intense supervision of labour Products designed for ease of manufacture Low-cost distribution system	Tight cost control Frequent, detailed control reports Structured organisation and responsibilities Incentives based on meeting strict quantitative targets
Differentiation	Strong marketing abilities Product engineering Creative flair Strong capability in basic research Corporate reputation for quality or technological leadership Long tradition in the industry or unique combination of skills drawn from other businesses Strong cooperation from channels	Strong coordination among functions in R&D, product development, and marketing Subjective measurements and incentives instead of quantitative measures Amenities to attract highly skilled labour, scientists, or creative people
Focus	Combination of the policies for overall cost leadership and/or differentiation directed at the particular strategic target	Combination of the policies for overall cost leadership and/or differentiation directed at the particular strategic target

Source: Porter, 1980, p.40-41

Table 2.9: Conditions and Implications of Pursuing Porter's Strategies

	Overall Cost Leadership	Differentiation	Focus
Advantage Over Competitor	Cost Based	Unique product/service	Segmentation
Barriers to Entry	Cost Based	Quality/reputation <i>et cetera</i>	Cost or Quality, as appropriate
Preferable Share of Market	High	Niche	Niche
Processes	Inter-changeable	Flexible	Tactical
Skills Base	Generalist	Specialist	Specialist
Preferred Environment	Stable	Changeable	Varies
Capital Profile	High Investment	Varies	Varies
Risks Associated	<ul style="list-style-type: none"> ◆ Skills required are expensive ◆ Resource intensive ◆ Vulnerable to environmental instability/technical change ◆ Vulnerable to imitation ◆ Potential to overlook new market opportunity ◆ Vulnerable to changing conditions among external factors 	<ul style="list-style-type: none"> ◆ Potential to misjudge price elasticity ◆ Potential cash flow difficulties ◆ Unsuitable in mature industries ◆ Dependent upon matching customer valuations 	<ul style="list-style-type: none"> ◆ Potential to misjudge demands of customers ◆ May fail to reach the sub-markets they are targeting

As can be seen from Tables 2.8 and 2.9, the generic strategies impose quite different implications upon the organisation and resources of a company, as well as identifying quite distinct markets that the company is seeking to reach. Low cost companies seek high market share to enable them to benefit from economies of scale, and will establish sophisticated systems in order to build upon and exploit their cost advantages. Differentiation companies will seek to gain from providing distinct products, aimed at customers who want 'something extra' and who may be willing to pay a premium for the differentiated product. As Table 2.9 notes, differentiation products may only be viable for a short time as competitors attempt to imitate, and achieve low cost production of new products to erode the advantage conferred by an initial differentiation strategy. The table also notes, however, that a low cost strategy may be undone by an ignorance of changing tastes or demands. The focus approach, which may be either cost or differentiation based is a specialist extension of one of the main strategies to reach a specific target audience, and will tend to be used sparingly in the case of a particular opportunity or threat that it would be inopportune for a company to ignore.

Porter also identified a fourth generic strategy, but one that is associated with failure. That strategy, which he identified as being 'stuck in the middle', indicates a failure upon the part of a company to fully develop one of the preceding strategies. Porter argues that a firm stuck in the middle is also guaranteed low profitability. It is not prepared or able to compete with companies that are successfully pursuing the other strategies. Porter suggests that such a position probably can be implied to show a directionless organisation, with a weak culture, or poor leadership. He believes that a 'stuck in the middle' strategy is untenable in the long run and that a company finding itself in this position must take actions to reorient itself along one of the cost/differentiation/focus strategic lines before its survival is placed in doubt. The company must take this decision based upon the closest match between its capabilities and the demands of one of these strategies. Porter cautions that once a decision is taken to pursue one of the three profitable generic strategies, a 'stuck in the middle' company would be advised not to continually change their decision, as this will only lead to a perpetuation of the state of being 'stuck in the middle'.

Porter's contribution to the development of research in the field was considerable. Miller and Dess note that for a five year period (1986-1990) one in every two articles published in the prestigious *Strategic Management Journal* referenced his work (Miller and Dess, 1993, p.553). Partially this was due to the fact that his typology of generic business strategies met the criteria established by Miller: of being memorable, neat and evocative (Miller, 1996). The prominence of Porter's work does not imply that it has not been

challenged. His approach has been widely tested and critiqued, and it is to 'post-Porter' developments that attention now switches.

2.5.5.3 *Developments in Business Strategy*

One of the key critiques of Porter's work was his view that adopting combined strategies was an unwise business decision, leading to the state of being 'stuck in the middle'. Many authors have questioned this aspect of his analysis, and these critiques are addresses here. Before this, however, it is necessary to show the extent of developments in the models underpinning the concept and progress of typologies of business strategy.

The development of the field has tended to be shown as a progression, through from the early work of authors such as Ansoff (1965) and Andrews (1971), to Porter (1980) and Abell (1980), through to the authors who have followed and attempted to refine their work such as Chrisman *et al* (1988). In most cases, authors have tended to extend the work by building upon existing theory, seeking to improve its effectiveness, and the universality of the frameworks developed. In order to better understand the development of concepts of business strategy, and to provide a framework for the coming discussion, Table 2.8 shows a subjective interpretation of the progression of business strategy systems of classification from Ansoff (1965) to Johnson and Scholes's synthesis of the work in the field (1999).

What is clear from Table 2.10 is how much each succeeding author has borrowed from their predecessor. Ansoff's work on a portfolio of strategy established a variety of different options in which an organisation could compete, other than by price alone. Porter develops this theme, but establishes a neater, albeit arguably narrower, configuration which was less deterministic and more prescriptive (Miller and Dess, 1993, p.578). His work addressed the question of which competitive strategies are available to an organisation trying to establish competitive advantage within a specific industry¹⁶, as well as the breadth of the product/market scope within which that advantage is sought. As previously noted, Porter argued that the strategies he set out were not to be used in combination, as they would result in a lost focus, resulting in a company becoming 'stuck in the middle', and hence producing inferior performance. It is this aspect of his analysis which has been most heavily critiqued. A number of authors, among them Hall (1983), Dess and Davis (1984), White (1986), Wright (1987), and Miller and Dess (1993) sought

¹⁶

Porter's work on the industrial organisation or competitive forces approach was described in Section 2.2.1, and his work on generic strategies is very closely linked to this governing theory of the firm.

to test his approach and provide evidence which refute his assertion with respect to being 'stuck in the middle'. Porter's work was at its most influential in the early to mid 1980's but is still widely cited, and utilised in the current literature, as Campbell-Hunt's (2000) recent article makes clear.

Table 2.10: Progression in Business Strategy

	Ansoff (1965)	Porter (1980)	Abell (1980)	Chrisman <i>et al</i> (1988)	Johnson and Scholes (1999), after Bowman (1998)
Name of Framework	Competitive Strategy	Three Generic Competitive Strategies	Segment Differentiation	New Competitive Business Strategy Classification Scheme	The Strategy Clock
Elements of Framework	i) Market Share Maximisation ii) Growth Strategies iii) Market Differentiation Strategy iv) Product/Service Differentiation	i) Cost Leadership ii) Differentiation iii) Focus	i) Differentiated ii) Undifferentiated iii) Focus	i) Segmented Cost ii) Segmented Cost Focus iii) Segmented Utility iv) Segmented Utility Focus v) Segmented Benefit vi) Segmented Benefit Focus vii) Mass-Market Costs viii) Focus Cost ix) Mass-Market Utility x) Focus Utility xi) Mass-Market Benefit xii) Focus Benefit xiii) Mass-Market Shortage xiv) Focus Shortage	i) A 'No Frills' strategy ii) A Low Price Strategy iii) An Added Value or Differentiation Strategy iv) An Hybrid Strategy v) A Focussed Differentiation Strategy vi-vii) Failure Strategies

Source: Table derived from works of original authors

Authors have identified other problems with Porter's analysis, in addition to those related to disagreements with the diagnosis of being 'stuck-in-the-middle'. Miller and Dess criticised his assertion that his typology was truly generalizable, arguing that none of his strategies were truly generic (Miller and Dess, 1993, p.577-578). A potentially more serious charge was that Porter's approach did not allow for segment differentiation (Sandberg, 1986). This critique suggests that Porter's model does not allow for organisations which utilise differing strategic approaches in the different product/market segments in which they operate. Clearly, this is a serious failing in an increasingly global economy, which minimises the effectiveness of the approach, and its utility¹⁷.

This failing of Porter's approach is partially compensated for in the literature by the work of another author cited in Table 2.10, Abell (1980), whose taxonomy concentrates upon an organisation's ability to differentiate its products across different product/market

¹⁷

This failing led to Chrisman *et al*'s claim that it was therefore a classification scheme, rather than a classification system (Chrisman *et al*, 1988, p.417).

segments. Abell suggests that companies can be classified by the scope of their differentiation and the markets they serve. Hence, his differentiation strategy category¹⁸ is used to describe companies adopting a broad focus of serving various markets with various different competitive weapons. In contrast, the undifferentiated strategy category indicates a company that employs only one common approach in each of the segments it seeks to serve. His focus category describes a company seeking a narrow scope within which to employ their strategic weapons. Chrisman *et al*, whose work followed Abell, argue that his approach benefits from this wider scope, making it more useful than Porter's as his "business definition strategies also are collectively exhaustive because they cover all possible combinations of scope and segment differentiation" (Chrisman *et al*, 1988, p.419). However, Abell's approach, unlike Porter's, does not allow for a consideration of competitive weapons. His taxonomy additionally does not distinguish between companies that operate one competitive weapon and those that utilise a range of weapons, and this has been identified as a weakness (Chrisman *et al*, 1988, p.418). This feature also presents his work from being considered a system, and therefore it is like Porter's typology, a scheme.

Chrisman *et al* set out to remedy the weaknesses identified in both Porter's and Abell's approaches, by combining their key attributes. They attempted to combine all of the possible choices of scope, segment differentiation, and types of competitive weapons, and identified sixteen theoretically possible generic business strategies (Chrisman *et al*, 1988, p.423), although two of these were later removed as they were felt unlikely to ever occur. This approach, it was argued, was collectively exhaustive. The result was a taxonomy that was larger than either Porter's or Abell's, but this extra size was, argued the authors, required to overcome the perceived difficulties of each of the models it sought to replace. The authors of the approach argued that the benefits of the extra aspects increased its scientific reliability. The next section explores Chrisman *et al*'s typology in more depth, and explains its amendment and possible improvement upon the work of Porter and Abell.

2.5.5.4 Chrisman *et al*'s Generic Business Strategies

As indicated in the preceding section, the work by Chrisman *et al* (1988), which included Charles Hofer, sought to develop a typology of business strategies which was inclusive, and overcame in turn the weaknesses of both Porter's and Abell's typologies. The result

18

A taxonomy is comprised of taxa "which are sets of entities sufficiently similar to each other and sufficiently different from the entities of other sets that they are separately defined and named" (Chrisman *et al*, 1988, p.415). A category is "a rank or level in a hierarchical classification which is comprised of taxa" (Chrisman *et al*, 1988, p.415).

was a typology of sixteen strategies. This represented a major increase over both Porter's and Abell's approaches, but was defended as being 'reasonably parsimonious' by the authors as a smaller set of strategies would have involved either reducing some possibilities as unfeasible, or combining some cells. The latter they viewed as undesirable as it would damage the typology for the very reasons the authors identified a need in the first place. They did feel able to reduce the typology slightly through the removal of two possible strategies (Chrisman *et al*, 1988, p.424). Part of this process involved developing new designations to augment or redefine the cost, differentiation and focus labels used by both Porter and Abell. Thus a *benefit strategy* involved seeking a competitive advantage through the use of noncost or price attributes to differentiate their products or services (Chrisman *et al*, 1988, p.423) while a *utility strategy* involved the simultaneous use of both cost and non-cost weapons, a development not allowed by Porter (Chrisman *et al*, 1988, p.423).

Overall, the authors claim that the typology is more scientific than either the Porter or the Abell approach making it both a taxonomy and a system. The sixteen strategies were:

- ▶ Segmented Cost: which is a strategy available to companies with a broad business scope, operating in a segmented industry, where the use of costs/prices are among its competitive weapons;
- ▶ Segmented Cost Focus: which is a strategy available to companies with a narrow business scope, operating in a segmented industry where the use of costs/prices as competitive weapons are particularly important in specific segments;
- ▶ Segmented Utility: which is a strategy available to companies with a broad business scope, and operating in a segmented industry, where the use of cost and benefit weapons simultaneously is a necessity or adds competitive advantage in their principal product/market segments;
- ▶ Segmented Utility Focus: which is a strategy available to companies with a narrow business scope, but operating in a segmented industry, where the use of cost and benefit weapons simultaneously is a valid approach to obtaining competitive advantage in their specific target product/market segments;
- ▶ Segmented Benefit: which is a strategy available to companies with a broad business scope, operating in a segmented industry where the use of non-cost attributes are among its competitive weapons;
- ▶ Segmented Benefit Focus: which is a strategy available to companies with a narrow business scope, operating in a segmented industry where the use of non-cost attributes are among its competitive weapons in its specific target markets;
- ▶ Mass-Market Costs: where a company does not differentiate among the segments in which it operates, and uses costs/prices attributes across all of these segments;

- ▶ Focus Cost: Porter's cost focus strategy;
- ▶ Mass-Market Utility: where a company does not differentiate among the segments in which it operates, and uses an utility approach across all of these segments;
- ▶ Focus Utility: where a company does not differentiate among the segments in which it operates, and uses an utility approach with a particular focus upon one specific segment;
- ▶ Mass-Market Benefit: where a company does not differentiate among the segments in which it operates, and uses a benefit approach across all of these segments;
- ▶ Focus Benefit: where a company does not differentiate among the segments in which it operates, and uses a benefit approach with a particular focus upon one specific segment;
- ▶ Mass-Market Shortage: where a company does not differentiate among the segments in which it operates, but has few competitive weapons available to it; and
- ▶ Focus Shortage: where a company does not differentiate among the segments in which it operates, but has few competitive weapons available to it in specific markets that it sought to target.

The model is helpful in that it overcomes some of the difficulties authors have identified with Porter's and Abell's approaches. In particular it acknowledges some of the problems of generalisation encountered in Porter's work: how can there only be four possible variations; why does the typology assume only one strategy in operation across a company, even those operating in multiple segments; what about companies that are demonstrably operating combined strategies and prospering?, without taking the view that strategy making is uncategorizable. The more inclusive nature of the approach has appealed to a number of researchers, and it has been utilised in a variety of recent studies (Aulakh *et al*, 2000; Chua *et al*, 1999; Chrisman *et al*, 1998; Sriram and Anikeeff, 1995; Carpano *et al*, 1994 among others). However its extra complexity, and the greater prominence of competing approaches have arguably resulted in a lower level utilisation than may have been expected for an approach which seeks to resolve practical difficulties. Despite this, the author believes that the approach does provide a greater degree of utility in the analysis of business strategy and its categorization, and therefore will be used in the forthcoming analysis.

2.5.5.5 Johnson and Scholes: A Synthesis of the Literature

The British management writers Johnson and Scholes have attempted to synthesise the work of various writers on the subject of business or competitive strategies, and have

developed a typology they have described as a 'strategy clock', within which the bases of separate business unit competitive advantage will be located. The outcome of this process of synthesis is, they argue, an extended version of Porter's work taking into account the views of those authors who have critiqued Porter's generic strategy approach and in particular Hill (1988), Miller and Friesen (1986a and 1986b), and White (1986). Johnson and Scholes extending the work of Bowman (1998), identify eight possible business/competitive strategies that a company may employ in the search for competitive advantage. After Porter, two of these are price-based strategies (Johnson and Scholes, 1999, p.271); one is a added value, or differentiation strategy (1999, p.276); one is a hybrid strategy (1999, p.281); one is a focussed differentiation strategy (1999, p.282); and three are described by Johnson and Scholes as failure strategies (1999, p.284). The details of this approach are presented in Table 2.11.

2.5.5.6 Features of the Typologies

Of the models presented in this section, there is a clear difference of intent from Pearce and Robinson's scheme presented in the preceding section. While Pearce and Robinson's scheme offered a series of options on the choice of strategic domain from which managers could choose, all of the authors quoted here have presented systems of classification which encourage a more complex, and arguably philosophical debate, about how the company will compete. All of the options presented require a company to engage in a political process, and indeed are closely related to the competing conceptions of the firm presented in Section 2.2. The systems of classification present concepts, rather than mere options, which involve an analytical process and their operationalisation is consequently more complex. They operate within a framework developed out of the deliberation at the corporate strategy level.

Equally clearly all of the systems presented in Section 2.5.5 could be used as analytical tools, to explore and explain the performance of companies. Relative success or failure could be attributed by authors on the basis of a comparative failure to:

- ▶ develop a clearly appropriate business strategy; and
- ▶ follow that strategy assiduously.

It is perhaps this added element which makes this area of the literature more contentious than the area addressed in Section 2.5.4.

Table 2.11: Johnson and Scholes (1999) Typology of Business Strategies

<i>Title</i>	<i>Description</i>
A 'no' frills strategy	A price-based approach “combines a low price, low perceived added value and a focus on a price-sensitive market segment”(p.271). Apparently ‘unattractive’, but recognises that there are some markets where customers are not looking for high cost, high value, high quality goods or services, and so this basic strategy is appealing, and based upon very low prices. They note that some companies use this approach as a means of gaining entry into a market place, and that once past the barriers to entry, can attempt to develop a different approach.
A Low Price Strategy	A price-based approach “seeks to achieve a lower price than competitors whilst trying to maintain similar value of product or services to that offered by competitors” (p.271). This approach is essentially the overall cost leadership approach championed by Porter, and is essentially a potential strategy in its classical sense for companies holding core advantages over competitors, who as the authors note may otherwise be able to imitate the low price approach leading to reduced margins throughout the industry. Such advantages may be a lower overall cost base, access to economies of scale, market and buying power and so on. Only viable for one organisation per industry and indeed may arguably not be a viable strategy at all unless it is tempered by combination with another strategic option. Companies generally aim somewhere between a ‘no frills’ strategy and ‘overall price leadership’, rather than pursue this approach.
An Added Value or Differentiation Strategy	The added value or differentiation approach “seeks to provide products or services unique or different from those of competitors in terms of dimensions widely valued by buyers” (p.276), with the aim of achieving improved market share. Suggest that the true value of a differentiation approach is through developing close links with customers and suppliers and exploiting the unique values that these provide. Finally, they suggest that companies that assume stability will persist and base their strategy upon this assumption are weakening that strategy’s chances of success in the long term. Strategies of this type need to be continually innovating to remain relevant to their target consumers
An Hybrid Strategy	This hybrid approach “seeks simultaneously to achieve differentiation and a price lower than that of competitors” (p.281), that is the delivery of enhanced value at a market competitive price. This approach relies upon having a low cost base, rather than being able to lower prices. This difference implies that the low cost element is a consistent feature of the approach, rather than the alternative differentiation approach, which seeks differentiation as the central part of the strategy, but which chooses to do so at the same time as trying to keep costs lower. The former aims to achieve both differentiation and low cost, while the latter is primarily concerned with differentiation, but reserves the use of low costs as an additional strategic tool.

Table 2.9: Johnson and Scholes (1999) Typology of Business Strategies Continued

A Focussed Differentiation Strategy	<p>This approach “seeks to provide high perceived value justifying a substantial price premium usually to a selected market segment” (p.282). This approach is seeking to provide a high quality/high differentiation product or service at a premium, to maximise the value added by the differentiation approach. However this approach is less likely to be a generalist approach to the market, and more one based upon targeting a market niche. Wider differentiation brings with it a number of key considerations, as creating a globally differentiated strategy is going to require the utilisation of a great degree of organisational resources. Clearly, a precise understanding of who your customers are and what exactly their needs are is vital. Meeting those needs is the essence of the approach.</p>
Failure Strategies	<p>Three possible strategic configurations which seem destined to fail (1999, p.284), to which could be added Porter’s concept of being ‘stuck in the middle’ are when:</p> <ul style="list-style-type: none">▸ a company increases its price of goods and services without at the same time raising the value of the goods and services to the consumer. This will result in an erosion of market share, providing competitors exist. They therefore note that the charge of following this approach has often been levelled at public utilities which operated in monopoly conditions and did not face the threat of substitution;▸ a company increases its prices while at the same time reduces the value of its product offering, an even more extreme version of the situation shown previously; and▸ a company retains its prices while at the same time seeks to reduce value; which is also a potentially dangerous approach but one that is more commonly witnessed.

Source: Adapted from Johnson and Scholes, 1999

The relationship between the systems of classification presented in Section's 2.5.4 and 2.5.5 is clear. One provides the context within which decisions in the other are taken. It is perhaps unsurprising, therefore, that some authors have attempted to devise systems of classification which address all of these questions consecutively. These models are addressed in the following section.

2.5.6 Organizational Models

This third section on systems of classification has been titled 'Organisational Models' in order to distinguish the models discussed here from the work reviewed above, which sought to provide options or classification systems for corporate and business level strategies. The distinction centres upon the attempt by some authors to identify the characteristics of an organisation as a complete system, in relation to both corporate and business level strategy, and their interrelationships. In particular the generic strategy work of Mintzberg (1988) falls into this category. The section also identifies the Miles and Snow (1978) typology of organisational strategy, structure and process, as a model which links strategic options to a "broader holistic approach to the organization-environment adaption cycle" (Segev, 1987, p.258). That is to say, it "proposes explicit links between strategy, environment and process" (Miller and Dess, 1993, p.578). This latter typology has encountered a degree of controversy, but is still a widely cited and used typology which plays a significant role in this research.

There is a difference of approach between the two models presented here. Mintzberg's model is concerned with the process an organisation has to go through to maximise its performance in its core business area, and follows this process from the corporate level decision making down to the business level. It is not, strictly speaking, a system of classification but rather a set of generic strategies. However, its inclusion at this point is valid, as Mintzberg has criticised the sort of model building already discussed in this Chapter, and his generic strategy is an antidote. Including it here helps to extend the debate on the validity of systems of classification. As has been noted, Miles and Snow have perhaps more than any other writers attempted to marry the strategic decision process required at all levels of an organisation, and attempted to show their interrelationships and impacts. Their approach included identifying a number of strategic archetypes which describe whole structures and systems, from the direction of corporate strategy, through the way a company will compete, to aspects of its functional decision making. Firstly, Mintzberg's contribution to the debate.

2.5.6.1 Mintzberg's Generic Corporate and Business Strategies

In 1973, Mintzberg developed a system of classification comprising three modes of

strategy-making: the entrepreneurial, the adaptive and the planning modes (Mintzberg, 1973b). This work focussed upon the process of strategic decision making, including motivations, actors, environment and so on. The outcome of this process was an organisational typology very similar in aim and objective to the Miles and Snow typology reviewed below. However, in later work (Mintzberg, 1988), he turned against concept building of this kind, regarding the approach as being too narrowly focussed, and tending to “aggregate arbitrarily across all varieties of them with no real order” (Mintzberg, 1988, p.1) and suggested a set of generic strategies which were more generally applicable, and therefore of real utility for organisations.

Mintzberg believes that generic strategies fall into five broad groupings, all of which take their starting point as an organisation which is (a) seeking to establish its core business, and (b) seeking to develop that core business, in some way. The five broad groups of strategy are these:

- ▶ locating the core business;
- ▶ distinguishing the core business;
- ▶ elaborating the core business;
- ▶ extending the core business; and
- ▶ re-conceiving the core business.

As the following discussion will make clear, Mintzberg is here proposing a system which returns the debate to the first section of this chapter. In his system, strategy is a pattern not a plan. Hence, where other authors like Porter identify a generic strategy as a plan or a ploy, and therefore make it a prescriptive act, Mintzberg suggests a general process, making following that strategy a pattern. However, within these ‘patterns’, Mintzberg himself suggests a variety of more recognisable prescriptive generic strategies that companies can elect to pursue to obtain their objectives. This difference in form will become clear during the following discussion.

2.5.6.5.1 Locating the Core Business

Mintzberg suggests that an organisation exists at the junction of a network of industries which are processing, buying and selling goods and services. This first stage involves determining exactly where on that network a business’ core is located. This may involve being located in the primary, secondary or tertiary sectors of the industry, or as Mintzberg now suggests these positions are called, the upstream, midstream or downstream of the industry (Mintzberg, 1996, p.85). Numerous generic approaches exist to enable a firm to decide where their core is located, but for most companies this decision will be determined by their organisational origin.

2.5.6.1.2 Distinguishing the Core Business

To Mintzberg, the next stage in a company's development is to open up the business and understand what capabilities it possesses that provide it with competitive advantage. This involves understanding how the value chain, as identified by Porter (1985), operates and the various strategies available at each stage of that value chain. These include: sourcing strategies (of procurement, people and finance); supporting strategies (legal, control, training and so on); designing strategies (R&D); processing strategies (process development, operations), and delivering strategies (marketing, sales, distribution and service). Strategies of this type would seem to fall within the boundaries of operational strategy, as discussed in Section 2.5.1.

Within this process of distinguishing the core business, however, Mintzberg also includes all of the concepts developed by Porter in his generic approach, reviewed in Section 2.5.5.2. Mintzberg acknowledges the main generic approaches devised by Porter: cost leadership, differentiation, cost focus and differentiation focus, dwelling upon differentiation by suggesting the following possible variations upon the differentiation approach:

- ▶ the price differentiation strategy: where products are differentiated by price;
- ▶ the image differentiation strategy: where products are differentiated by marketing;
- ▶ the support differentiation strategy: where products are differentiated by a noncost attribute, similar to Chrisman *et al*'s concept of a benefit strategy (Chrisman *et al*, 1988, p.423);
- ▶ the quality differentiation strategy: where products are differentiated by an improvement in quality;
- ▶ the design differentiation strategy: where products are differentiated by enhanced design features; and
- ▶ the undifferentiation strategy: where no differentiation is attempted.

However, Mintzberg also notes the critique offered by authors like Abell (1980) and Chrisman *et al* (1988), in relation to the question of scope, and hence includes an additional range of competitive strategies which address this shortcoming:

- ▶ the unsegmentation strategy: equivalent to Chrisman *et al*'s mass market strategy;
- ▶ segmentation strategies;
- ▶ the niche strategy; and
- ▶ customizing strategies: wherein unique aspects are added to an approach to account for the particular needs of individual customers.

2.5.6.1.3 Elaborating the Core Business

Mintzberg, having adopted the views of Porter and Abell in the preceding stage, adopts those of Ansoff (1965, and Section 2.5.5.1) at this stage, in elaborating the core. He notes the availability of the four stages identified by Ansoff: penetration, market development, product development and diversification.

2.5.6.1.4 Extending the Core Business

These strategies aim to take a company beyond its core business, and this can be done either vertically or horizontally, or through a combination of vertical and horizontal. Mintzberg describes vertical strategies for extending the core business as 'Chain Integration' strategies, and horizontal strategies for extending the core business as 'Diversification' strategies. 'Chain Integration' strategies involve decisions on the part of managers to extend their actions either upstream or downstream to encompass the activities of either suppliers, customers or both. Referring back to Pearce and Robinson's grand strategies of Section 2.5.4, the decision to undertake vertical integration would be evidence of a 'Chain Integration' generic strategy.

'Diversification strategies', operating horizontally to become 'Chain Integration' strategies, refer to a company's entry into businesses not in the same chain of operation. Mintzberg notes that this action may be related, or unrelated, to the existing core business. Hence, a 'Diversification' generic strategy would encompass grand strategies such as horizontal integration or concentric diversification if the business area moved into was in some way related to the core, or conglomerate diversification if it was unrelated.

In both 'Chain Integration' and 'Diversification' strategies, other of Pearce and Robinson's grand strategies may be evident, specifically in relation to how 'new' areas of activity are entered and controlled. Both may of course operate organic internal development programmes or may choose to grow by acquisition: each consistent with an extended concentrated growth strategy, or implicit in a vertically or horizontally integrative, or concentric or conglomerate diversification strategy. However, companies may also choose to grow by accessing a variety of other grand strategies, such as joint ventures, strategic alliances or consortia.

Mintzberg also notes a variety of other combined integration-diversification generic strategies available to a company to extend its core. These include 'By-Product Diversification', 'Linked Diversification', or 'Crystalline Diversification'. These involve a series of market or product development grand strategies, or extended vertically or horizontally integrative grand strategies, aimed at releasing opportunity for the company

as it seeks to extend its core business. A final generic strategy available in this section is the 'Withdrawal Strategy'. Various labels as an exit strategy, shrinking the core business, or utilising the grand strategies identified by Pearce and Robinson, of divestment or liquidation.

2.5.6.1.5 *Reconceiving the Core Business(es)*

Mintzberg justifies examining strategies aimed at reconceiving (or redefining or reconfiguring) because of the real possibility that as firms develop, as they identify, distinguish, elaborate and extend their strategies, they may lose touch with what they were aiming to do. Reconceiving the business is therefore a form of rationalisation. Mintzberg identifies three basic reconception strategies: 'Business Redefinition', 'Business Recombination', and 'Core Relocation'.

(a) A 'Business Redefinition' strategy involves undertaking a process of 're-imagining' the company, possibly in respect of its function, its market, the product it produces and so on. A business may redefine by becoming narrower, or broader. This strategy would occur in the minds of the stakeholders in the company and lead to formal action on the part of senior management.

(b) A 'Business Recombination' strategy involves a process akin to realising synergistic opportunities, by recombining business horizontally. Mintzberg draws attention to the difficulties that may result from such a strategy, but notes that should the correct conditions be in evidence the results of such a strategy can be significant. He notes that business recombination's can be both tangible and intangible, creating the potential for conceptually recombined businesses. This is an important aspect for the companies under investigation, as electricity companies with gas businesses recombine to become 'energy companies'. He also notes that business recombination may involve the bundling, or unbundling of products to meet a perceived demand of consumers. Mintzberg suggests that the nature of this strategy leads to a 'systems view' of a business "where all products and services are conceived to be tightly interrelated" (1996, p.720).

(c) A 'Core Relocation' strategy notes that an organisation can move away from its original core location, as the company distinguishes, elaborates and extends its strategy. Mintzberg suggests that the company may more profitably locate its core away from its original location to reflect the distance it has travelled. He suggests that a company may move along its operating chain, either up or down stream from its original location. There may be movement between dominant functions within the company, there may be a shift to a totally new business, or to a totally new core theme.

Mintzberg warns that a company focussing upon the list he provides as a guide to strategy development “may put that organisation at a disadvantage against competitors that develop their strategies in more creative ways” (1996, p.720). This generic typology therefore aims primarily to identify strategic options available to a company, rather than differentiating and generalising behaviour.

2.5.6.1.6 *Features of the Typology*

Mintzberg’s typology is an interesting construct being at the same time a synthesis of earlier work, and in particular the work of author’s discussed in Section 2.5.5 of this chapter, and an attempt to present work of this nature in a more ‘user friendly’ and practical configuration. As stated previously, this approach conforms to his underlying concept of strategy as pattern, preferring to illustrate a potential series of options for an organisation, rather than to prescribe. It is striking, however, to note the extent of similarities between the work of writers in this field and the tendency for writers to develop differing labels for constructs which appear similar to those of other writers. This tendency seems to confirm the view expressed earlier that part of the inherent weakness of social science research is its capacity for competition rather than collaboration between its exponents.

2.5.6.2 *Miles and Snow’s Generic Typology*

Miles and Snow’s (1978) typology of strategic types differs markedly from Mintzberg’s. Where Mintzberg’s model provides a process, Miles and Snow’s approach seeks to differentiate, generalise, identify and retrieve information. The typology is principally a corporate level description of organisational types, but in covering an organisation’s “orientation toward product-market development” (Segev, 1989) infers aspects of business level decision making. It aimed to describe the organisation as a “whole system” (Snow and Hrebiniak, 1980, p.318) and was therefore different from many of its contemporaries. Some authors, in particular Hambrick (1983), have suggested that Miles and Snow’s model is not a ‘whole systems’ model, but focusses primarily upon business-level strategies, “and its applicability for corporate-level strategy is not clear, but it probably is very limited” (Hambrick, 1983a, p.6), a view shared by White (1986), Chaganti and Sambharya, (1987), and Douglas and Rhee, (1989) among others. Miller (1986) notes that while the scope of the Miles and Snow typology is extensive and while it does discuss strategic content, “there are relatively few details given about marketing, production, R&D, vertical integration and asset management strategies” (Miller, 1986, p.234). The author believes that the relationship to corporate level strategy is at least implied by the model, and cites the work of Hambrick (1981a, 1981b, 1982, 1983a) and Burgelman (1983) as relatively contemporary attempts to make this link more explicit.

While this point continues to be debated, for example Thomas and Ramaswamy note the typology's organisation wide prospective including "the articulation of new domains for the organisation" (Thomas and Ramaswamy, 1996, p.251), what is not in question is that the model developed by Miles and Snow is a typology, as it differentiates between types of strategy, organisations and decision-making styles, and is also evocative and memorable.

Miles and Snow viewed their approach as a continuation of the Strategic Choice Approach (Child, 1988) which emphasised the overwhelming influence of organisational decision makers on the strategy that a company would seek to deploy. This issue was identified as being especially important in an industry with no competitive heritage to draw upon. As such, the Miles and Snow approach pays close attention to the functioning of a dominant coalition, the most influential grouping of the company's top managers defined in Section 2.3.1. In essence, the approach holds that the responses of the dominant coalition to a number of key questions will both shape corporate strategy, and address the issues relating to strategic deployment.

Miles and Snow argue that the solutions a company's dominant coalition devised to a set of three fundamental problems effectively shaped that company's corporate strategy. These questions were described as: the entrepreneurial problem, or how to manage their share of their market sector; the engineering problem, or how to operationalize their solutions to their entrepreneurial problem; and the administrative problem, or how to structure their organisation to manage these processes.

The model further suggested that while all companies would develop unique responses to these questions, many companies would develop similar responses, and that it would be possible to observe common patterns of behaviour. As a result of their application of the approach, they identified four such organisation types: the defender; the reactor; the analyser; and the prospector. The key features of each, including their respective entrepreneurial, engineering and administrative problems are summarised in Table 2.10, and explored below.

2.5.6.2.1 The Characteristics of the Defender

The entrepreneurial problem facing the Defender is how it is able to secure a stable niche market, and then 'seal off' that niche to enable it to command a stable set of products and customers. It is perhaps important to highlight here Miles and Snow's use of the term 'niche'. In the context of Miles and Snow's model, 'niche' appears not to be used in the currently defined form of an organisation so specialised as to be able to only meet the

needs of a very small part of the market, through the production of a specific product or use of a specific technology, that it is secure from the challenge of other organisations (Modiano and Ni-Chionna, 1986), but rather to indicate a certain segment of the market captured by a more generic strategy; in this case cost leadership. Reference to a niche market as used by Miles and Snow's in the remainder of this report should take this possible ambiguity into account.

The defender is likely to adopt a strategy similar to that identified by Porter as 'overall cost leadership' (Porter, 1980, p.35) based upon efficiency and excellence of service. The essence of the behaviour of the company is limitation and incrementalism: do not be over ambitious in your objectives and adopt an incremental approach to growth strategies. The overwhelming demands of efficiency constitute the operational problem of the defender, a problem it will seek to resolve by the application of cost-efficient technology, and by a quest for continuous improvement. This may involve a high level of capital investment. Such a strategy will see concentration upon single core technologies and core business activities, although such companies will also seek the assurances offered by vertical integration.

The administrative problem facing the defender is concerned with the achievement of control, as a means of assuring efficiency. Miles and Snow argue that as a consequence of this situation, positions within the dominant coalition of the defender will be filled by financial and production experts, managers more used to operating systems and developing structures, and thus strategy or box approach managers from Farkus and Wetlaufer's checklist (Section 2.3.2). The members of the dominant coalition will see lengthy tenure, and promotions will occur from within. Centralised control will be enforced by an intensive planning regime, which follows the traditional Plan, Act, Evaluate pattern (Miles and Snow, 1978, p.43). Consequently, the defender will tend to be rigid, bureaucratic, and rarely able to make rapid internal readjustments. In this respect the defender is very similar to Mintzberg's 'Machine Organisation' (Mintzberg, 1979). Miles and Snow describe a defender organisation as offering "a limited, stable product line and (*which will*) compete primarily on the basis of value and/or cost" (Miles and Snow, 1986, p.54). The role played by a defender within an industry is to "uphold quality levels while driving down the costs of standardized goods and services" (Miles and Snow, 1986, p.60).

2.5.6.2.2 The Characteristics of the Prospector

The entrepreneurial problem facing the prospector is how to locate and exploit new product and market opportunities. The prospector is a 'first to market' company, and as such requires a highly developed industry surveillance system to detect opportunities as

they arise. Through such a monitoring system, a prospector oversees a very wide domain. The company embraces change, and may experience non-linear growth patterns as it seeks to achieve product and market development. The prospector is therefore not unused to risk.

Table 2.12: Chief Characteristics of the Miles and Snow Model

Personality	Dominant Objectives	Preferred Strategies	Planning and control systems
Defender	<i>Desire for a secure and stable niche market</i>	<i>Specialisation: cost-efficient production: marketing emphasises price and service to defend current business: tendency to vertical integration. Greater efficiency from existing operations.</i>	<i>Centralised, detailed control Emphasis on cost efficiency Extensive use of formal planning</i>
Prospector	<i>Location and exploitation of new product and market opportunities</i>	<i>Growth through product and market development (often in spurts). Constant monitoring of environmental change. Multiple technologies. Exploration of change in an effort to open up new areas of opportunity.</i>	<i>Emphasis on flexibility, decentralised control, use of ad hoc measurements</i>
Analyser	<i>Desire to match new ventures to present shape of business</i>	<i>Steady growth through market penetration. Exploitation of applied research. Followers in the market</i>	<i>Very complicated. Co-ordinating roles between functions (eg product managers). Intensive planning.</i>
Reactor	<i>Survival</i>	<i>Pattern of adjustment inconsistent and unstable. Lacking consistent response mechanisms which can be put into effect when faced with changing environment</i>	<i>Fire fighting</i>

Miles and Snow identify the avoidance of long-term commitment to a single technology as the operational problem facing the prospector. This problem is overcome by flexibility: of technology and of personnel. The solution is closely linked to the quality of the prospectors' most valuable asset, the people in the operation. The down-side of flexibility is a lack of opportunity to achieve efficient operations.

The problem of how to facilitate and coordinate the diverse activities of the prospector constitutes the company's administrative problem. The flexibility evident elsewhere characterises the solution in this area: prospectors form problem solving *ad hoc* groupings to deal with specific situations, and are results oriented. Tenure within the dominant coalition will not always be lengthy, as fresh ideas and solutions are sought often from outside the organisation. Marketing, and research and development experts would tend to exercise the most influence. The planning function within a prospector is broad, and

based upon seeking opportunities and problems, rather than upon organisation. This process is characterised as following the Evaluate, Act, Plan pattern (Miles and Snow, 1978, p.62). Miles and Snow describe a prospector organisation as being "first to market with a new product or service and (*who*) differentiate themselves from their competitors by using their ability to develop innovative technologies and products" (Miles and Snow, 1986, p.54). The role played by a prospector within an industry is seen as being to "sustain technological innovation" as they are the principal contributors to the design of new products and services (Miles and Snow, 1986, p.60).

2.5.6.2.3 The Characteristics of the Analyser

The entrepreneurial problem facing the analyser is how to locate and exploit new opportunities, while at the same time defending their existing base of products and customers. An experienced analyser is perceived to combine the strengths of both prospector and defender in a single entity. The analyser is therefore a hybrid, with a dual domain and surveillance mechanisms concentrating upon the marketing function. Growth would be achieved through market penetration and both product and market development.

Operationally, problems arise from the dual need of being efficient in core business areas and yet flexible in new business activities. The company would achieve this by operating dual technologies where appropriate, while understanding that some degree of efficiency is sacrificed in such a situation. The analyser emphasises the role of applied research in achieving a solution to its operational problem.

The administrative problem facing the analyser is highly complex and concerns the question of how to differentiate the organisation's structure and processes to accommodate both the core and the new business areas. The company will develop a matrix structure combining both functional divisions and product groups. This will require extremely complex coordination mechanisms, and feed back facilities. The objective of the process is to maintain balance, stability, and flexibility. The dominant coalition will reflect the differing priorities of the company, and will centre upon the marketing and applied research functions, but which will also include the production function.

As a consequence of the complexity of the operations, planning will be both intensive and comprehensive. Due to the nature of the company's activity Miles and Snow hold that planning similar to that carried out by defenders will occur: established core businesses will Plan, Act, Evaluate. With new business activity, the process will be characterised as Evaluate, Plan, Act; a recognition of the need to establish whether the endeavour is likely to yield reward before any action is undertaken (Miles and Snow, 1978, p.75). The

analyser performs a key role for the industry in which it operates, of transferring information about what is possible and profitable to other less well attuned companies. Miles and Snow believe that the analyser "sets broad efficiency targets that defenders try to surpass" (Miles and Snow, 1978, p.61), and describe an analyzer organisation as pursuing a "second-in strategy whereby they imitate and improve upon the product offerings of their competitors", thus taking the opportunity to rationalise other firms' product designs and methods of production (Miles and Snow, 1986, p.54). Miles and Snow believe that the analyzer plays the most important role in the industry, that of transferring information, leading to standardization of technology and product design. Analyzers therefore actively rationalise the product offering of prospectors, and ensure only the best ideas prosper.

2.5.6.2.4 The Characteristics of the Reactor

The reactor is a company that is fundamentally unprepared for the challenges that face it in its operating environment. The company is reactive and inflexible in the face of rapidly changing situations, and will probably have no defined dominant objectives, above what may be described as survival. If a strategy is articulated, there may be inadequate capability to see it through, either in terms of an inappropriate structure, unsophisticated processes or unsuitable technology.

Another problem which constrains the reactor is a tendency for management to remain loyal to a particular strategy-structure relationship even though it is no longer relevant to environmental conditions. This may be the product of a flawed strategy process, or of loyalty towards a policy which has proved successful in the past. It may also be due to uncertain command structures. A flawed strategic decision making process may well develop inconsistent and unstable responses to changing circumstances. The overall effect is that the reactor will pursue ill articulated or inappropriate strategies, and will respond to change only when forced to. The lack of a specific strategy makes a company a reactor, and more than likely dooms it to "experience poor business performance" (Parker and Helms, 1992, p.25)

2.5.6.2.5 Developments from the Original Typology

Within their original work, Miles and Snow noted that they expected the dimensions of their typology to be extended, a reflection of the exploratory nature of their work. They noted that their theoretical framework was "in no sense complete" and that "modifications and extensions will undoubtedly occur" (Miles and Snow, 1978, p.166). Two such developments require discussion here. The first was suggested by Miles and Snow themselves. The concept of a 'Dynamic Network' organisation was introduced in 1986

and later developed upon (Miles and Snow, 1986, 1992). The new form recognises the increasingly dynamic environment that business must operate within, resulting in new ways of interacting. The new form is flexible, and able to assemble and reassemble as demand warrants, and the use of strategies based upon joint ventures, subcontracting and licencing across international borders indicates its existence.

The characteristics of the new form are:

- ▶ vertical disaggregation, where “business functions such as product design and development, manufacturing, marketing and distribution” which are typically conducted within a single organization “are performed by independent organizations within a network”, which may be more or less complex depending upon competitive circumstances (Miles and Snow, 1986, p.56);
- ▶ brokers, who act as linking mechanisms to assemble the various business functions necessary to perform the necessary services;
- ▶ market mechanisms, which take the place of formal planning and control regimes. In such a situation, contracts between functions and payment by results determine business interrelationship; and
- ▶ full-disclosure information systems, a transparent method of agreeing upon what constitutes value added activity and verifying that value added activity has occurred.

Miles and Snow argue that such a firm will, by forming a network, be freed from any constraints applied to it that may prevent it maximising the performance of its distinctive competencies (Miles and Snow, 1986, p.57). They argue that, properly constructed, such a network will see components complementing rather than competing with other components. Such a configuration will handle manage situations, or projects that can not be resolved by a single company. Network organisations, therefore, provide a formal structure for major consortia.

The network form predicts a situation where organisational forms join together to undertake projects that they individually could not perform. For example, Miles and Snow speculate that within a network form prospectors may play the designer role, analyzers may play the marketing/distribution role, and defenders perform the producer role. A theoretical network form therefore synthesises the other types of firm to allow each to exploit their individual distinctive competencies. The network form, therefore, synthesises vertical integration. It also allows organizations to move across industry and international borders, as brokers locate links in the network far away from each other. Conceptually, the new Network Form exists within the Network structures identified in

Section 2.4.2 of this chapter.

A second new form within the Miles and Snow typology was devised by Wright *et al* (1990). The Balancer was an organisation which sought to strike a balance between the needs of a stable technology and those of fluid technologies, across a range of separate product-market spheres.

2.5.6.2.6 Features of the Typology

In contrast to Mintzberg's model, the Miles and Snow approach seeks to generalise observable behaviour in a system of classification that attempts a more holistic understanding of the various component parts of an organization's strategic process. It attempts, broadly, to classify the different capabilities displayed by organizations within the same industry. These capabilities would have been developed, as distinctive competencies, to match the desired strategy of the organisation. The typology therefore seeks to associate a variety of aspects of an organisation's characteristics: its strategy, structure, leadership, organisational control measures and so on, in a "complete system" (Snow and Hrebiniak, 1980, p.318). The typology was devised with the intention of being universally applicable, and is therefore subject to the criticism of Weick (1979) and White (1986) of being too generalized to be of any value. However, the typology has proved extremely popular over the past two decades, and has been used as the basis of a large number of empirical studies (Snow and Hrebiniak, 1980; Hambrick, 1983, Smith *et al*, 1986, McDaniel and Kolari, 1987, Segev, 1987, 1989, Conant *et al*, 1990, Parker and Helms, 1992, Thomas and Ramaswamy, 1996, Lukas, 1999, among many others).

An interesting aspect of the Miles and Snow approach is their intuitive conception of the need for different industries - defined as being at a different stage of development - to have different configurations of company types. They identify three possible patterns:

- ▶ embryonic industries, where there is inevitably a high population of prospector companies, will move to their next stage (maturity) when a company decides to develop a defender approach leading to other defender and analyzer companies following behind it. They quote the example of Henry Ford and automobiles as an example;
- ▶ mature industries, where there is an expectation of fewer participants and a tendency towards defender oriented approaches, but which must have some prospector organisations to prevent the industry from declining, by pushing it forward through innovation; and
- ▶ transition industries, where the mix will be more varied reflecting the stage of development that the industry finds itself in. The failure of a defender to emerge

in an embryonic industry may see that industry failure to develop to maturity stage.

This concept will be applied to the industry under investigation to see if it holds for the ESI.

2.6 Concluding Remarks

The intention of this chapter was to explore the areas of the management literature that directly impacted upon the proposed research. To that end, the following areas were identified as being appropriate for consideration and review:

- ▶ an understanding of the concept of strategy;
- ▶ an appreciation of theories relating to the factors influencing strategy;
- ▶ an awareness of means of classifying strategy and identifying strategic content; and
- ▶ an assessment of predictive management models, and theories.

These issues have therefore been reviewed in this chapter, and while the process has necessitated some degree of pragmatism in relation to the depth into which the review has gone, the key area: classification and strategic content, have been explored in detail. In addition to grounding the work of this thesis in the existing literature, the chapter had three other key objectives, as identified in Section 2.0.1:

- ▶ to identify any deficiencies in the existing literature, in relation to the chosen area of study and in particular to the general applicability of systems of classification in regulated environments;
- ▶ to identify analytical frameworks that were to be carried forward for use in the proposed research; and
- ▶ to critique aspects of the literature and propose appropriate amendments to existing models and concepts. This concluding section of Chapter Six addresses each of these three key objectives.

2.6.1 Deficiencies in the Literature

The belief that there exist deficiencies within the literature has two aspects, which are directly related to the context of this proposed research. Firstly, there is the ongoing debate as to the presumed general applicability of management theory across all sectors of the economy, and secondly the author's concern, shared by a variety of authors, that regulated environments experience different conditions to traditional market environment's, undermining any confidence in the concept of general applicability.

The unique context of the ESI, and its difference from traditional market models, will be addressed in Chapter Four. At this point it is necessary to reprise the concerns voiced by authors such as Weick (1979), White (1986), Douglas and Rhee (1989), Barney and Hoskisson (1990), McGee and Thomas (1986), Hatten and Hatten (1987) and so on, who all question the validity of the use of, outcomes of, or general applicability of systems of classification. Of more particular concern are comments from authors such as Snow and Hrebiniak (1980) with respect to the lack of attention theorists have paid to non-traditionally competitive markets, or even to the transition industries identified by Miles and Snow (1992). The author contends that the lack of attention paid to privatised, liberalised, regulated or partially regulated industries is a serious omission, especially given the proliferation of industries of this type as identified in Chapter One. Serious doubts exist as to the validity of many of the core managerial concepts discussed in this chapter in non-traditional environments and this research seeks to comment upon these.

2.6.2 Frameworks for Analysis

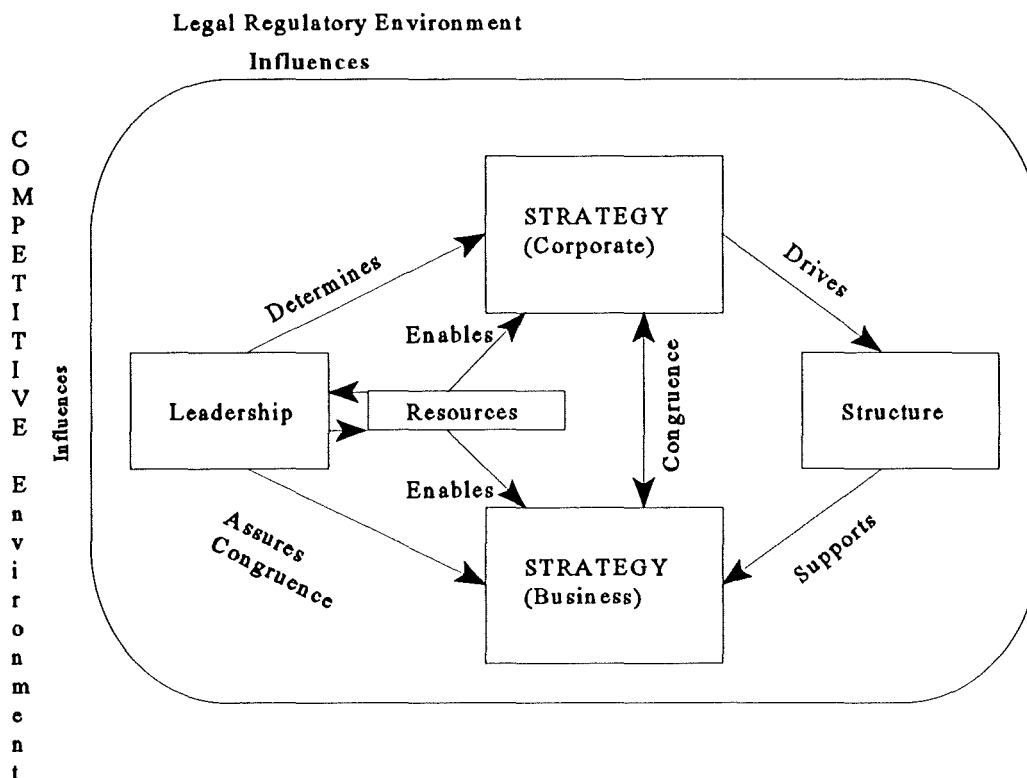
Another role of this chapter has been to identify a series of analytical frameworks for use throughout this thesis. The focus upon strategy content, drivers of strategy and classification systems has determined the nature of the frameworks adopted for this research. In relation to strategy content, the author has decided to employ the Pearce and Robinson (1994) system of grand strategies for the identification and analysis of corporate level strategy, and a combination of Porter's (1980) generic business strategies, and the taxonomy presented by Chrisman *et al* (1988). The rationale behind these decisions are as follows:

- ▶ each of the systems of classification conform to Miler's (1996) measures for effectiveness of a system of classification: they are all memorable, neat and evocative;
- ▶ each provides a comprehensive selection of the options that are possible to identify in relation to each area of strategy making, although the author notes Chrisman *et al*'s critique of Porter's work in particular and their (Chrisman *et al*'s) suggested amendments/improvements to his work. The decision to include Porter's framework in the analysis has been taken to align the work with other work previously undertaken to review the applicability of Porter's concepts;
- ▶ each system has been widely used within the literature, and continues to be utilised by academic researchers contributing to the literature; and
- ▶ each is appropriate to the task at hand.

In relation to strategic drivers, a framework was presented at Figure 2.3 which attempts to capture all of the relevant aspects of the debate on strategic drivers, as influenced by

a competitive forces and a resources based view of the firm. The figure acts as a synthesis of these aspects, showing the authors perception of the interrelationship between the various factors that have been identified throughout this research. The Figure, it is hoped, will enable a deductive analysis of these influences across the various case studies to be presented in both the preliminary and field stages of this research. However, the author does acknowledge the possibility of new factors being identified, and proposes to review this deductive framework at the conclusion of the preliminary stage of the research, in Chapter Eight, to determine the continued validity of this construct. In Chapter Twelve, a review of the impact of the various influences will be undertaken. This review will utilise the model illustrated in Figure 2.5 to propose a solution to Objective Two. The hope is that this discussion will enable this thesis to make a contribution to the literature by suggesting an 'organising theme' (Miller, 1996) in the area of strategy in regulated environments.

Figure 2.5: A Map of Possible Strategy Drivers



Finally, systems of classification. The literature also discussed organisational systems, which attempt a whole systems approach, will allocate descriptive labels to collections of interrelated strategies, structures, systems, procedures and so on. In this analysis, the system developed by Miles and Snow (1978, 1986, 1992) has been adopted by the author, as it conforms to all of the considerations identified above in relation to corporate and

business level systems of classification: its neatness, its comprehensiveness, its wide and continued use, and its appropriateness to the given task. Inevitably, one of the major issues for this research is judging the continued comprehensiveness of the approach given the context of this research, but it was the author's view that the typology was the most appropriate for consideration in the circumstances, especially given Miles and Snow's extension of their work in 1992, which acknowledged the potential for different configurations to be evident at different stages in an industry's development.

Having identified these three key areas, it should also be noted that a number of other key concepts identified within this review will be utilised in the following analysis. These include:

- ▶ the question of whether the strategies of the sample companies are identifiably prescriptive or emergent, as discussed in Section 2.1.2;
- ▶ the question of whether REC leadership style is demonstrably transactional or transformational, as discussed in Section 2.3.1;
- ▶ the question of the importance of dominant coalition, as Miles and Snow note that the approach of the dominant coalition will be particularly important in industries with a limited competitive heritage, and whether there is a link between membership of a dominant coalition and the strategy pursued, as also discussed in Section 2.3.1;
- ▶ the question of which if any of Farkus and Wetlaufer's leadership archetypes are evident in any of the case study companies, as discussed in Section 2.3.2;
- ▶ the question of the importance of structure, and its relationship to strategy, as discussed in Section 2.4.2; and
- ▶ a formal assessment of Miles and Snow's concept that different configurations will be seen to predominate at different stages of the development of an industry.

2.6.3 Critiques and Amendments


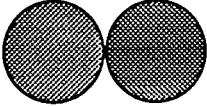
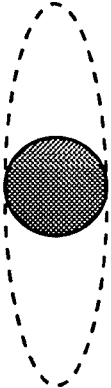
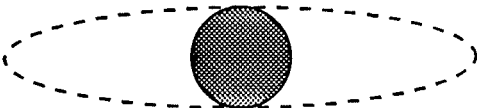
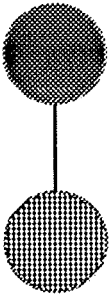
The final section of this chapter marks the beginning of the inductive research proposed within this work. It was noted earlier that, firstly, an objective of this research was to propose a series of viable strategy combinations that were evident within the industry. But that, secondly, this was work that had yet to be undertaken by Pearce and Robinson, upon whose work this analysis was based. The author therefore proposes to establish a series of possible strategic combinations which are suggested by the work of Pearce and Robinson, but which are not made clear. The aim here is to establish a reference point for work on strategy combinations that will occur, in particular, in Chapter's Five to Eight of this research.

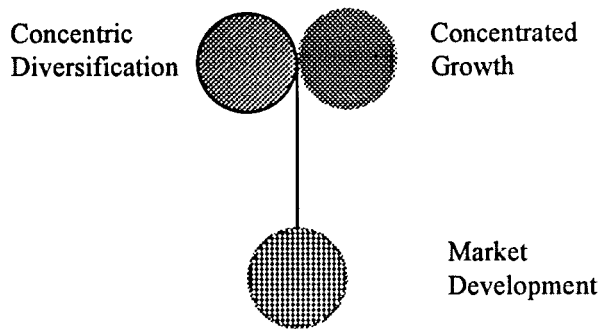
To reiterate the key sentiments expressed by Pearce and Robinson in relation to combinations of grand strategies: a grand strategy is “a comprehensive general approach that guides a firm’s major actions” (Pearce and Robinson, 1994, p.224). Any one of the grand strategies “could serve as the basis for achieving the major long-term objectives of a single firm....but....many firm’s usually combine several grand strategies” (Pearce and Robinson, 1994, p.224). While Pearce and Robinson offer the reader suggested clusters of grand strategies, they do not specify the nature and relationship of strategic combinations. Some of the grand strategies provide, therefore, options to decision makers to progress their decision making if an existing strategy has fallen short of its objectives, or if new opportunity has presented itself. The objective of this section is to explore this subject, and suggest possible combinations demonstrating this concept.

However, the author believes it is firstly necessary to critique the view expressed by Pearce and Robinson in regard to their claim that any one grand strategy could act as the basis for achieving a firm’s major long term objectives. It is therefore argued that of the 14 grand strategies presented, only two: concentrated growth and innovation, could be pursued in isolation. It would not be possible to follow, for example, a product development strategy if there was not a concentrated growth strategy in place to provide a ‘product’ for the strategy to ‘develop’. Of these two ‘core’ strategies the concentrated growth strategy is by far the most common, and perhaps is the ‘default’, ‘foundation’, or ‘building block’ strategy underlying all of this analysis, by which it is meant that most organisations will seek, or arguably will have to seek, a concentrated growth strategy if they are to survive and prosper. Most strategies, therefore, will originate from a concentrated growth base. The providence of basing a strategy on innovation has already been questioned, in particular in the review of the prospector organisation in Section 2.5.6.2.2, as well as Section 2.5.4.4. However it is possible, and therefore needs to be identified as such here. However innovation is much more likely to be used as an strategic option, rather than as a strategic foundation.

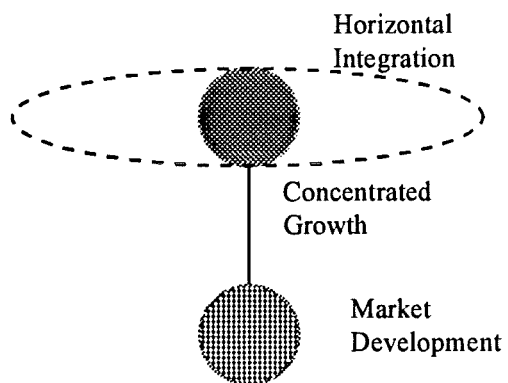
Figure 2.6 displays, therefore, a series of strategic combinations developed by the author which utilise the logic of Pearce and Robinson’s conceptualising as well as a knowledge of the behaviour of organisations in market situations. It is not intended to provide exhaustive explanations of the nature of these combinations at this point, as their validity, in terms of existence and viability will be legitimised by the research that follows in Chapter’s Five to Eight.

Figure 2.6: Possible Strategy Combinations

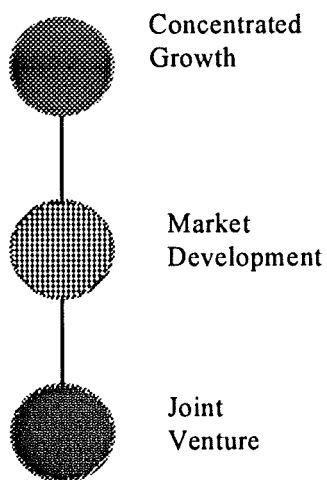
Combination	Narrative
 Concentrated Growth	Variant 1: The core concentrated growth approach
 Concentric Diversification Concentrated Growth	Variant 1A: An extended concentrated growth approach, featuring concentric diversification
 Vertical Integration Concentrated Growth	Variant 1B: An extended concentrated growth approach, featuring vertical integration
 Horizontal Integration Concentrated Growth	Variant 1C: An extended concentrated growth approach, featuring vertical integration
 Concentrated Growth Market Development	Variant 2: Organic market development



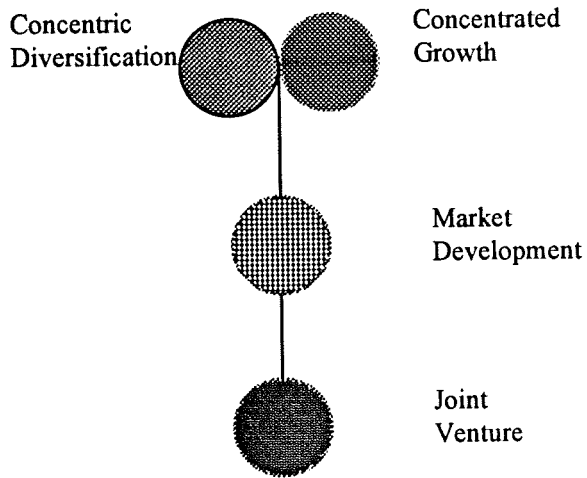
Variant 2A: Extended organic market development, featuring concentric diversification



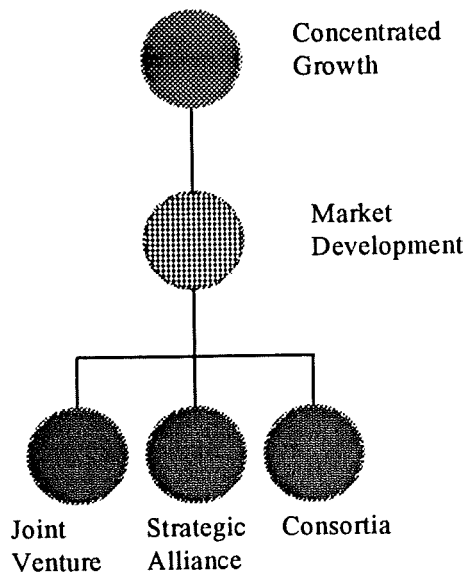
Variant 2B: Organic market development, featuring horizontal integration



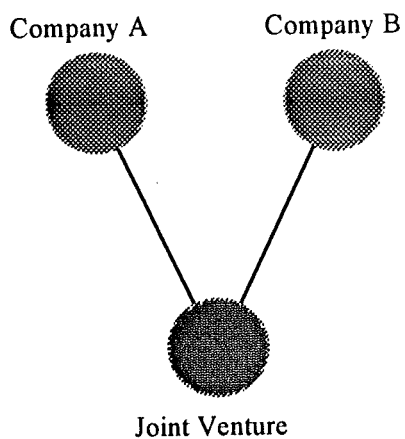
Variant 3: External market development



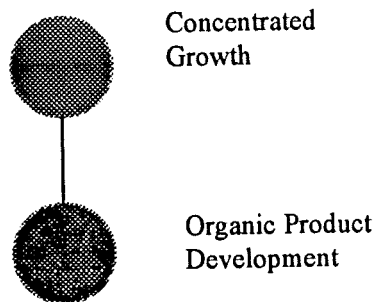
Variant 3A: External market development, featuring concentric diversification



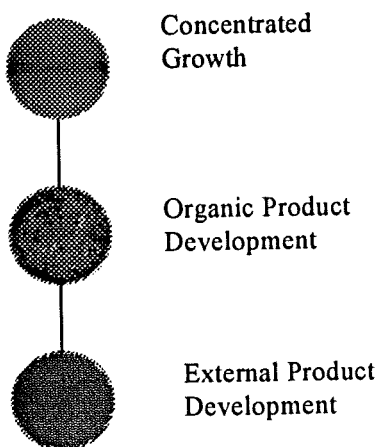
Variant 3B: An extended external market development approach



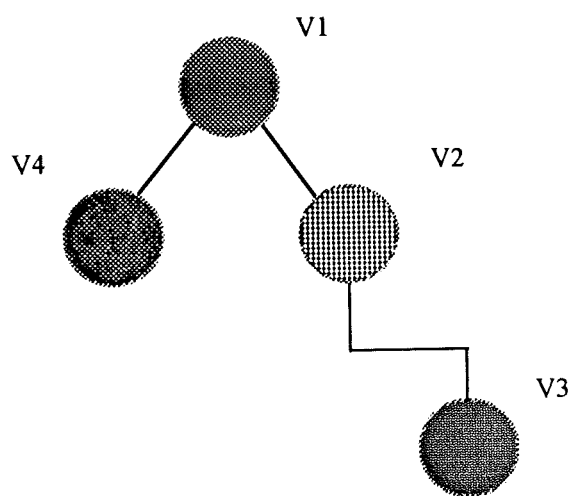
Variant 3C: Alternate view of Variant 3



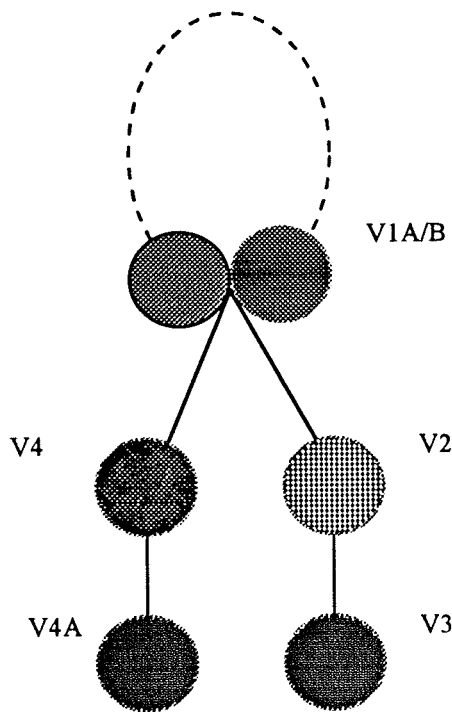
Variant 4: Organic product development



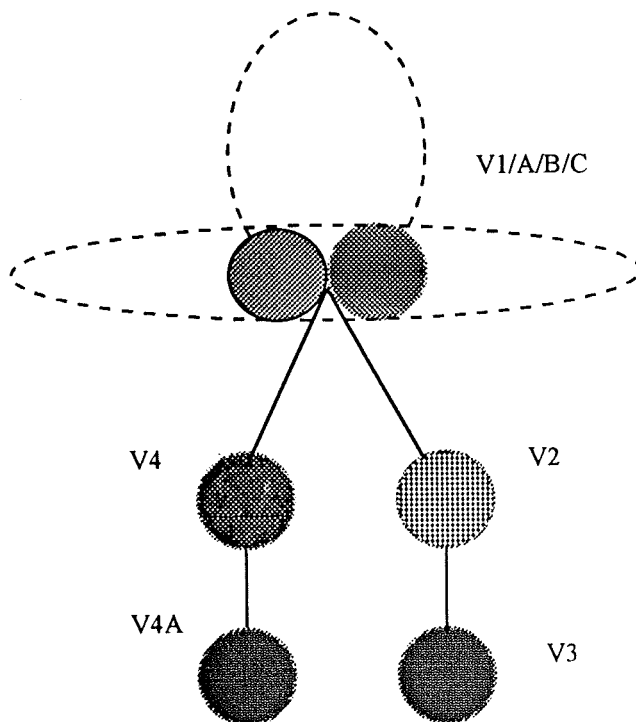
Variant 4A: External product development



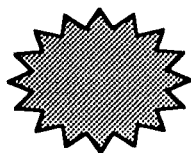
Variant 5: A multiple approach, featuring elements of Variant's 1, 2, 3, and 4



Variant 5B: An extended multiple approach



Variant 5C: Another extended multiple approach



Variant 6: Innovation

The above figure provides a variety of possible strategic combinations that may be evident. It is not intended to be exhaustive, but merely to indicate a variety of the most commonly occurring combinations. Throughout the research, these combinations will be referred back to, new variant's identified, and discussion of their relative merits and legitimacy, and suitability for application, will be presented.

Chapter Three Methodology and Research Design

3.0 Introduction

There exists within the business management field an at times acrimonious (Gill and Johnson, 1991, p.vii) debate as to the relative merits of different schools of research methodology. What authors do not debate, however, is the vital importance of methodology in producing valid and reliable outcomes from research. This chapter has two objectives: to present the decisions taken by the author in respect of the methodology employed in this research; to make a case for the validity and reliability of that chosen methodology, and hence underline the validity of the outcomes of the research itself.

Before beginning this exercise, however, it is perhaps appropriate to provide a brief summary of the contents of this chapter to guide the reader. The chapter is divided into seven discrete sections. In Section 3.1, the reader is introduced to a series of standard research concepts regularly used by social science researchers. As previously mentioned research philosophy is a contentious issue, and so a clear understanding of the location of this research is of considerable importance. In order to justify the author's approach, therefore this section seeks to explore the key features of the two main schools of thought in social science research: positivism and phenomenology, along with the key methods of exploration, data collection and analysis, associated with each school. In so doing, the issue of the context of the research and the selection of the most appropriate approach are addressed.

In Section 3.2, readers are presented with a map of the research design as a guide to the research process, which is described in Section's 3.3 to 3.6. In addition, the key concept of triangulation is discussed and its relevance to the research process explained. In Section 3.3 the early, preparatory stages of the research are explained, with reference to the process followed by the author in terms of domain selection and research questions, the role, process and outcome of the literature survey, and the role and process of exploratory interviews.

In Section's 3.4 and 3.5, the preliminary and field stage research processes are explained. In each section the aims and objectives, key methodological issues (in particular relating to the use of content analysis in Section 3.4 and case studies in Section 3.5), process of triangulation, and outcomes are clarified, and explained. Section 3.6 discusses the process

of inductive proposition building, from the tentative propositions put forward in Chapter One to the development of hypotheses for testing in future research, as presented in Chapter Thirteen. Section 3.7 concludes the chapter by relating the chosen approach to the scientific method, and exploring the question of validity.

3.0.1 Characteristics of Research

Before moving on to consider these issues, it is perhaps appropriate to briefly consider some wider issues with respect to the process of research itself, and its underlying aims. The literature suggests that there are a variety of different forms of research in the business environment. Jankowicz notes three types; pure research; consultancy; and applied research (Jankowicz, 1995, p.92). The variation between these differing types stems ultimately from the differing ends that the research is intended to address, within the context of the environment. In the business environment, this impact on the environment can be identified as the provision of solutions to real business problems. Pure research is intended to have no immediate practical application. It is undertaken to increase the fund of academic knowledge, and is theory based. Consultancy, on the other hand is only concerned with practical application, in this case providing a solution to a managerial problem. Applied research represents a combined approach, wherein academic investigation provides solutions to specific management problems.

Cooper and Emory reinforce this distinction, by arguing that research is either problem based, or it is pure research. Pure research also seeks to resolve problems, but “of a theoretical nature that has little direct impact on action, performance or policy decisions” (Cooper and Emory, 1995, p.10). They note four different categories of study that a project may adopt; reporting, descriptive, explanatory, and predictive (Cooper and Emory, 1995, p.11). Churchill (1991) argues that of these four, the most important are exploratory and descriptive research. Exploratory research seeks to better understand an area of interest, and begin to develop new approaches. It marks the beginning of a research process, in terms of idea generation and the location of initial insights to be used in future explorations of the issues and problems identified (Robson, 1993, Yin, 1994). Primarily, it is undertaken by reference to existing data, or new data gained to support the process of concept development. As indicated in Chapter One, this research can be identified on the whole as being exploratory in nature, using a single industry study to develop more detailed hypothesis to be used in future descriptive analysis. Descriptive research tends to follow exploratory research, and involves extending the field of study across a much wider sample. It tends to focus upon a narrower range of variables than exploratory research, but through an interrogation of a wider sample and will seek understanding of causal relationships. This research does not involve descriptive research,

as it is intended to generate the concepts and working hypotheses that will be pursued in future descriptive research, as discussed in Chapter Thirteen.

Returning to the issue of the nature of research, the consensus is that it must be about the solution of problems, whatever their origin, and for whatever their ultimate purpose. Pure research will aim to build, test or disprove theory. Consultancy will seek to find a solution to a particular managerial problem. Applied Research will take an academic, theory based approach to resolving a practical problem. This project is intended to be located in the area of applied research, as it is hoped that the eventual outcomes will provide valuable insights into the operation or organisations in situations of industrial transformation. It has not been undertaken for purely theoretical purposes, nor as a consultancy project.

3.1 Standard Research Concepts

As mentioned in Section 3.0, research in the social sciences is often overshadowed by a debate with respect to the inherent validity of competing methodological approaches. This debate centres upon the extent to which social science research can achieve the validity conferred by the application of the 'scientific method'. There is a general consensus within the literature that "good research uses the scientific method" (Cooper and Emory, 1995, p.12), or hypothetico-deductive methods (Jankowicz, 1995) as the concept is sometimes described. According to Gill and Johnson consideration of the scientific method or hypothetico-deductive reasoning implies an acceptance, shared with the natural sciences, that what is important in research is not the source of theories and hypothesis, but the process by which these ideas are tested and verified (Gill and Johnson, 1991, p. 32). The debate within the social research arena is how best, or indeed whether it is possible, to successfully achieve a scientific approach to research.

In short, the discussion is concerned with locating the most appropriate route to a final destination, perhaps identified as the 'objective truth'. The competing schools, primarily positivism and phenomenology (Gill and Johnson, 1991, Easterby-Smith *et al*, 1991)¹, argue for the validity of one approach and often for the invalidity of the other, based upon either's ability to achieve scientific methods of investigation and analysis. Some authors have argued each approach is quite different from the other, generating different concepts and using different tools (Burrell and Morgan, 1979) and so are not in competition. Other

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Other schools of thought have developed within the literature: realism, subjectivity, idealism and postmodernism. A decision was taken not to review these competing schools of thought as their relevance to the research in question was not thought to be significant.

authors, such as May (1997), have argued for the validity of either approach in the appropriate circumstances and providing that rigour in methodological terms is achieved. Either of these latter views could be interpreted as suggesting that the approaches may be complementary.

This section seeks to explore this debate, in order to facilitate an appropriate choice of research methodology for this thesis. Both positivism and phenomenology will be explored, in terms of their guiding philosophy, principal methods of exploration and analysis, and their appropriate research contexts. In addition, the relationship between both positivism and phenomenology and deductive and inductive approaches to research will be discussed.

3.1.1 Positivism

The underlying philosophy of the positivist is that social scientists must seek to divorce themselves as much as possible from the views of the people in society², and hence study social phenomena “in the same state of mind as the physicist, chemist or physiologist when he probes into a still unexplored region of the scientific domain” (Durkheim, 1964, quoted in May, 1997). In short, therefore, a positivist or behaviourist approach seeks to adopt a scientific detachment, free from the distorting potential of opinion and bias, in order to achieve “the prediction and explanation of the behaviour of phenomena and the pursuit of objectivity” (May, 1997, p.10). Such an approach would therefore share the same aims as the natural scientist.

Gill and Johnson, synthesising the work of writers such as Keat and Urry (1975) and Giddens (1979), argue that the two most significant characteristics of a positivist approach are that:

- ▶ research should concern itself with “only directly observable phenomena, with any reference to the intangible or subjective being excluded as being meaningless” (Gill and Johnson, 1991, p.132); and
- ▶ should seek “the testing of theories, in a hypothetico-deductive fashion, by their confrontation with the facts of a readily observable external world” (Gill and Johnson, 1991, p. 132).

Johnson (1983) provides a succinct explanation of the rationale for the positivist approach when he argues that “human behaviour is subject to the operation of laws of cause and

²

In business research this would equate to industry.

effect, and the nature of these laws can be identified by the process of hypothesis-testing against empirical evidence” (Johnson, 1983).

The outcomes of a positivist approach therefore seeks to produce sets of ‘covering laws’ in the same fashion as do the natural sciences. These covering laws describe, on the basis of observed phenomena, expected behavioural characteristics which may be applied to the whole of society/industry. It is an approach which seeks to understand causality within society/industry, on the basis of generalizable behaviour, but without direct reference to the opinions of actors within society/industry. As such, as will be discussed, it has been associated with more quantitative research driven by surveys, experimentation, and content analysis, rather than more qualitative, opinion based research (Sapsford and Jupp, 1996). Saunders *et al* identify the steps necessary in an hypothetico-deductive approach as including:

- ▶ deducing the hypothesis from the theory;
- ▶ expressing the hypothesis in operational terms;
- ▶ testing the operational hypothesis;
- ▶ examining the outcome; and
- ▶ modifying the theory in the light of the outcome, if necessary (Saunders *et al*, 1997, p.71).

The approach will inevitably be highly structured.

Closely related to the concept of positivism is the concept of empiricism. It is generally accepted that empiricism is separated from positivism by each school’s perspective on the issue of theory. As can be seen from the preceding discussion, in a positivist approach data is collected with the intention of either defending or falsifying a theory. Empiricism, on the other hand “refers to a conception of social research involving the production of accurate data - meticulous, precise, generalizable - in which the data themselves constitute an end for the research” (Bulmer, 1982, quoted in May, 1997, p.11). In short, the view of the empiricist school is that data generated by research is an end in itself “and requires no explanation via theoretical propositions” (May, 1997, p.11). Despite this, the school shares many similarities with a positive approach, not least the view that “there is a world out there that we can record and we can analyse independently of people’s interpretations of it” (May, 1997, p.11).

3.1.1.1 Chosen Methods of Exploration

Section 3.1.1 referred to the tendency for positivist (or empiricist) approaches to rely upon quantitative methods for the exploration of research problems. Table 3.1 presents the various means of collecting data available to the social science researcher, as compiled

Table 3.1: Selected Methods of Data Collection

Name of Method	Definition	Disposition
Surveys	the collection of data from large samples to determine the characteristics and beliefs of the population at large	Quantitative
In-depth interviews	a conversation between researcher and informant which may be open-ended, semi-structured or structured	Qualitative
Elite interviewing	differentiated from vi) above as seeking specifically the views of influential or well-informed people in an organization (Cooper and Emory, 1995, p. 119)	Qualitative
Ideal or laboratory experiment	defined by Cooper and Emory as "studies involving intervention by the researcher beyond that required for measurement" (1995, p.351), where dependent variables are manipulated by a researcher to observe the reaction of a independent variable;	Quantitative
Quasi-experimental & action research:	Action research, according to Rapoport "aims to contribute both to the practical concerns of people in an immediate problematic situation and to the goals of social science by joint collaboration within a mutually acceptable ethical framework" (Rapoport, 1970, p.499);	Qualitative
Ethnography, or street ethnography:	defined by Cooper and Emory as the process of discovering how a cultural subgroup describes and structures its world at a street level (1995, p.119);	Qualitative
Official statistics	data collected by a government agency	Quantitative
Participant observation	the study, by observation, of naturally occurring social phenomena. An approach based upon the researcher not having a preconception of what is important, but allowing the importance of phenomena to become apparent through observation (Bauman, 1992; Samuel, 1994; Whyte, 1984, as quoted in May, 1997, pp.132-33)	Qualitative
Documentary research	the investigation of public records, reports, government documents, historical or contemporary analysis or data, recorded opinion, or confidential materials;	Quantitative/ Qualitative
Projective techniques and psychological testing	identified by Cooper and Emory as including thematic apperception tests, projective measures, games, and role-play (1995, p.118)	Quantitative/ Qualitative
Films, photographs and videotape	for the purpose of "capturing the life of the group under study" (Cooper and Emory, 1995, p.118);	Qualitative

from the work of authors such as Gill and Johnson (1991), May (1997), and Cooper and Emory (1995), among others. The extent to which each is related to the positivist tradition is determined by (i) the extent to which the approach can be divorced from subjectivity on the part of the respondent/observer and (ii) the extent to which the data collected can be analysed by quantitative methods.

Of the above methods of data collection, the approach most frequently associated with a positivist view, in management research at least, is that of the survey. In other branches of social science research other positivist methods are successfully employed, such as in psychology for instance where laboratory experiments are frequently used. Surveys are often seen as a way by which statistical evidence can be collected to confirm or falsify a theory. Subject to the appropriate measures to ensure standardisation, replicability, validity and representativeness, surveys can provide data about which generalisation's can be made in respect of the behavioural characteristics of a specific sample of people, companies and so on. Surveys, which are replicated and found to provide similar findings, increase the confidence that can be placed upon the validity of results, and hence the confidence that can be placed upon the confirmation of the theory. Surveys are often associated with a positivist philosophy as they provide the means of gathering data which allows the researcher to remain detached from their subjects, but which allows for the creation of generalizable rules. They are seen to utilise a methodology with "logical similarities to that used by physical scientists" (May, 1997, p.83). A key attribute of a survey is identified by Ferber *et al* (1980): a method of gathering information, from a sample of some description, to gain insight into the larger population from which the sample was drawn. Surveys are forms of data collection, as well as methods of analysis (De Vaus, 1996).

Surveys provide a researcher with an approach where data collection is relatively straightforward, theoretically grounded, providing the appropriate procedures have been followed in the construction of the research instrument, and easily replicable, aiding the process of verification and strengthening the reliability of the outcomes. The approach does, however, have a number of inherent weaknesses, which may actively restrict the option of utilising the approach in certain contexts.

The principal objection to a survey approach is that it attempts to show a causal relationship between sets of variables, when the reality of social interaction is not based upon causality (May, 1997, p.104). It is argued in certain sections of the literature that the co-relation of variables does not imply that one has caused the other, just that there may be an association. The tendency of the survey approach is to suggest a relationship between variables that does not in reality exist, and by seeking to understand relationships statistically, a researcher may overlook the true significance of their findings (May, 1997, p.104).

May notes that an associated criticism of the survey approach is that it "rules out the possibility of understanding the process by which people come to adopt particular values

or behaviours” (May, 1997, p.104). It is possible for researchers to ground their survey in theory, and so overcome this criticism, but the literature continues to perceive that this is still a common feature of the use of questionnaires. Another related concern is that the bias of the surveyor will become apparent within the survey construction. Bias in question formulation will lead inevitably to the outcomes that the researcher is seeking, and therefore undermines the validity of the process undertaken. Surveys also tend to be ‘snap-shots’ of opinion at a particular time, unless they are undertaken longitudinally (May, 1997, p.105).

The underlying concern with the use of survey method is therefore that of validity. Without interaction with the participant, a number of questions are posed. How is the researcher to be sure that the respondent has understood the question? How is the researcher to know the respondent has answered the questions truthfully? How is the researcher to know that the respondent has access to the data required, and is in a position to speak for their organisation authoritatively? How is the researcher to know that what the respondent says that they do, they do in actuality? (Jankowicz, 1995, p.184; Cooper and Emory, 1995, p.269). Surveys, driven as they are by the needs of quantitative analysis, will tend towards reducing potentially complex problems to a series of limited responses, which arguably actively reduces the quality and breadth of the potential responses. Therefore, reliability is a key issue, although as Gill and Johnson note, reliability is no guarantee of validity (Gill and Johnson, 1991, p.88).

A second major quantitative approach used in data collection is content analysis. This approach does not seek to survey organisations or people operating in the field, but predominantly seeks to quantitatively analyse large quantities of secondary textual data, like for example newspapers (Beardsworth, 1980). As the reader will see, the analysis of the content of newspapers and the use of content analysis is a significant feature of this research and so the subject will be addressed in Section 3.4.

3.1.1.2 Chosen Methods of Analysis

Clearly, as indicated by the preceding sections, positivist approaches are most closely associated with quantitative methods of analysis. Quantitative methods are usually associated with the use of descriptive statistics, which maintain the underlying aim of a positivist approach of enabling cause and effect to be assessed. A first stage therefore is description, as De Vaus notes, “unless we have described something accurately and thoroughly, attempts to explain it will be misplaced” (De Vaus, 1996, p.24). A wide range of techniques can be applied in descriptive analysis, from simple reporting of mean scores, to significance testing using tests such as chi-square. The aim of this stage of a

quantitative analysis is to prepare the data prior to its testing in relation to the underlying hypotheses.

The literature on hypothesis testing is considerable, and it is not possible to address here in great detail. In essence, the objective of hypothesis testing through quantitative approaches is to prove causal relationships through the application of rigorous and verifiable statistical techniques. Quantitative approaches are of particular virtue in areas of study requiring an understanding of the behaviour of large sample populations, and the testing of the relationship between variables through the use of statistical analysis. Proponents of quantitative methods argue that they are more inherently scientific than other possible methods, providing the necessary preparatory conditions have been fulfilled.

3.1.2 Phenomenology

The opposite position to the positivist philosophy has been variously described as a interpretive or phenomenologist approach. This approach seeks to interpret social phenomena in terms of the relationship between actor and act. In a phenomenological approach there is no attempt to separate out the effect that the human actor has upon observable actions, to account for the possibly illogical underpinnings of decisions, and the possible “structural inequalities in society/industry” (Sapsford and Jupp, 1996, p.304), which can affect the decisions taken. Generally, this school holds that a positivist approach: clinical, scientific, and seeking to downplay the effects of the human, seeks explanation rather than understanding, and hence produces a situation which limits research, and reduces the outcomes of research. Research that is interpretive will, it is argued, more accurately reflect what is happening, and hence contribute to the creation of responses which more accurately reflect reality, than a positivist approach.

Phenomenological approaches have tended to be associated with more qualitative methods of exploration, and hence with more exploratory research (Cooper and Emory, 1995, p.118). In essence, certain elements of the literature suggests that phenomenological approaches are useful for the generation of research questions, especially the case when inductive research is being undertaken, or for establishing rough propositions for development into more definite hypotheses, which would then be tested more scientifically. Other authors increasingly argue that phenomenological approaches have intrinsic value of their own (Yin, 1994, Hamel, 1992), and this is especially the case with the development in popularity of perspectives like the resource based view of the firm which emphasises the need to study phenomena internal to the organisation. As was shown in the preceding chapter, the development of the resource based view has been seen as a move back towards the case-based qualitative approaches favoured by early writers

on management (Hoskisson *et al*, 1999), and away from the more quantitative approaches championed by authors such as Porter (1980) during the 1970's and 1980's.

3.1.2.1 Chosen Methods of Exploration

In much the same way that certain methods of data collection are associated with positivist/quantitative approaches, so certain methods of data collection are associated with phenomenological/qualitative approaches. These approaches are again referred to in Table 3.1, and as can be seen by reference to this comparison, the variety of approaches available within the social sciences is varied, and contentious. This, arguably, has been a major cause of the difficulties associated with research in this school - the fact that no one dominant approach has emerged. However, the use of case studies most frequently characterises a qualitative approach, either in conjunction with in-depth interviewing or techniques like participant observation. Cases play an important part in this research, and it is therefore on case-based approaches that this section focusses.

The value of utilising a case based approach in social research is increasingly being argued by a number of social science researchers (Yin, 1994, Hamel, 1992, Perry and Kraemer, 1986). Indeed some authors argue that the use of cases in management research has a long history, stretching back to the work of scholars such as Learned and Andrews (Hoskisson *et al*, 1999), and realisation of the value of case based approaches is once again common within the literature (Hoskisson *et al*, 1999, p.417). Increasingly, case studies are perceived as providing a degree of detail, and an opportunity to understand complex social phenomena that other research methods fail to achieve (Yin, 1994). The purpose of this section is therefore to explore this approach more fully, as well as to understand the limitations of a case based approach, and their implications for the reliability of the outcomes of this research. A number of these issues have already been addressed in Section 1.6.1, but the author believes it is necessary to review them again in some length.

Firstly, it is necessary to assess the occasions in social research when a case based approach may be considered appropriate, and to explain the characteristics of these occasions. Yin argues against the generally accepted viewpoint that "various research strategies should be arrayed hierarchically" (Yin, 1994, p.3). In such an arrangement, the only role that a case approach would perform would be that of the initial exploratory phase of a research project, to be followed subsequently by more scientifically rigorous approaches, such as surveys or experiments. Yin argues that all approaches have applications in all phases of research, whether that stage is exploratory, descriptive or explanatory, and cites his own research as evidence (Yin, 1981a, Yin, 1981b). The key

issue, in Yin's view, is that the appropriate strategy be applied to a research project, and that "gross misfits" of strategy and project be avoided (Yin, 1994, p.4).

According to Yin selecting an appropriate, or rather a not-inappropriate, research approach involves three key factors for the business researcher to consider. These are:

- ▶ the type of research question posed;
- ▶ the extent of control an investigator has over actual behavioural events; and
- ▶ the degree of focus on contemporary as opposed to historical events.

Yin presents a graphical representation of the relationship between these key factors, and the five principal research strategies available to the business researcher, as replicated in Table 3.2.

Table 3.2: Relevant Situations for Different Research Strategies

Strategy	Form of research question	Requires control over behavioural events?	Focusses on contemporary issues?
Experiment	how, why	yes	yes
survey	who, what, where, how many, how much	no	yes
archival analysis	who, what, where, how many, how much	no	yes/no
history	how, why	no	no
case study	how, why	no	yes

Source: Yin, 1994, p.6

This thesis, as established in Chapter One, has four key research objectives. These principally seek to ascertain the nature of the content of the strategies the sample group of companies has developed, and why. The project has not sought to determine questions related to performance such as *how many*, or *how much*. For the purposes of this research, therefore, a case approach supported by textual and archival analysis provides the necessary means to pursue the research objectives. It would have been possible to undertake the intended research through a survey-based approach, but the author doubts that the such an approach would have been able to access the necessary detail sought, and explore the complex interrelationships involved in the strategy processes of the sample companies. In this essentially exploratory research, therefore, the propensity of phenomenological approaches to address complex and detailed interrelationships was thought the most beneficial, and appropriate way forward.

In explaining why this decision was taken, it may be beneficial to explore the supposed limitations of a case based approach by explaining how potential weaknesses were overcome or felt to be of limited danger in the conduct of this research. The traditional concern in the use of case studies in research has been over the potential lack of rigour, and three common elements regarding the application of case studies have been identified (Yin, 1994, p.9-10). The first concern is centred upon the capacity of case based research to present findings which have "allowed equivocal evidence or biased views to influence the direction of the findings and conclusions" (Yin, 1994). However, it is clear from the literature on social science research, that bias and equivocation can be equally evident in more supposedly rigorous approaches such as experiments and surveys (May, 1997, p.104). Consequently this concern can not be localised in relation to case based research, but to badly formulated research in general. Research which has been developed objectively should be safe from this concern.

Secondly is the concern mentioned above about the replicability and generalizability of case based research, and the question of external and internal verification. It is generally held that these are valid concerns in relation to case based approaches, but again concerns which could be applied to other research approaches. Once again, poorly conceived research may suffer from each of these blights. It is perhaps appropriate to consider each of these concerns in reference to this research project.

(i) Replicability: there is clearly a problem in seeking to replicate this research project, if an exact replication is to be sought. It is unlikely that another researcher would be given access to each of the managers interviewed in this research, especially when the industry itself is fluid and a company's internal management structure is often in a state of flux. However, it is possible to approximately replicate this project - to follow each step - as the wider sample population is known and aspects of the material used in triangulation (for example published documents from sample organisations, the wider business literature and business press) are freely available.

(ii) Generalizability: the author has been concerned to suggest throughout that research of this nature is not intended to be seen as generalising widely about the nature of company behaviour. Until the conclusions of the research have been tested in a wider context, they can only be said to infer behaviour among the companies that (a) agreed to participate and (b) operate in the industry sample. The project's single industry focus has been established, and the characteristics of a single industry project were reviewed in Section 1.6.2. Wide scale generalizability is not an aim of this project.

(iii) *External and Internal Verification*: the author has aimed to clearly reference all works used within this discussion, even those accessed through an intermediate author. The primary data collected in confidential interviews has been presented in as open a method as possible: Section 1.5.2.1 shows the companies and positions of those interviewed (but not the names, as per confidentiality agreements); each quote used from the primary data has been referenced against this schedule; and a sample of the interviews conducted with senior industry managers has been replicated in Appendix Two. This openness, it is hoped, will satisfy concerns about the validity and originality of the research. As mentioned above, exact verification may be difficult to achieve, but approximate replication is a distinct possibility.

Thirdly, Yin notes a general concern that a case based approach results in an over long research process, and produces documents that are consequently themselves generally over long, and therefore arguably ineffective. As Yin notes, such a criticism may be appropriate, or it may not (Yin, 1994, p.10). This depends upon the method of data collection applied in the case. If the case is based upon lengthy data collection procedures, such as ethnography or participant-observation, then the preparation of the case may take a long time, and run to many pages. Conversely, if another method is chosen, such as the use of a telephone, or indeed the method applied here of a series of in-depth interviews, the data collection can both be undertaken more concisely, and can also be focussed upon achieving specific objectives.

Other writers have identified further potential problems with the use of a case approach, and these are addressed here. Moser and Kalton (1983) identify a further three issues. The first of these is accessibility, and the question of whether the interviewees had access to "the information that the interviewer seeks". The interview framework utilised took into account the potential for interviewee's to refuse to answer questions due to a concern for commercial confidence. As such, the framework was intended to dwell upon former activities - a description of how strategy developed, and for what reason, and what current or future strategy directions were intended. That is, it was intended that the question of confidentiality would not be an issue. While in some cases interviewee's thought processes led them towards confidential issues, these were in the main illustrative points and did not affect the substance of the interviews themselves.

Additionally, Moser and Kalton identified the question of interviewee cognition. Did the person to be questioned, possess an understanding "of what was required of him or her in the role of the interviewee"? While a response to this question will inevitably be subjective, all possible actions were taken to ensure that interviewee's understood their

role in the process. Early notification of the areas for discussion were circulated to interviewee's, and, as the cases consisted of semi-structured interviews, it was possible for the researcher to guide the interviewee back to the main areas of discussion if they began to digress³. Furthermore, as far as the selection of potential interviewee's was concerned, this process was undertaken by the researcher and the key organisational contact in tandem. Usually the key contact was the group strategy director who once fully briefed understood the needs of the research, and was able to identify suitable supporting interviewee's.

Finally, Moser and Kalton identified the question of motivation, wherein the interviewer must make the interviewee "feel that their participation and answers are valued". Again, assurances in respect of motivation are inevitably subjective, but the author argues that all possible actions were taken to ensure that interviewee's understood the value of their input. For example, all interviewee's were presented with copies of their transcribed interviews as soon as possible after the interview date, and asked to make comments or corrections as they felt necessary. All interviewee's have been kept up to date with the progress of the research project, and provided with copies of all subsequent publications resulting from the research.

Clearly, the author shares the view of a number of authors, and Yin (1994) in particular that different approaches to conducting research are valid providing two conditions are met. Firstly, that the approach is appropriate for the stated objectives, and secondly that the research process is rigorous. Simply assigning a methodology based upon a preference is not a feature of good research, and so the author argues for the compatibility of the differing perspectives, rather than declaring himself for one side or the other. Before verifying the decisions taken in this research project, it is necessary to briefly consider the relationship between the differing traditions discussed to date, with inductive and deductive approaches.

3.1.3 Deductive and Inductive Approaches

In making a decision as to whether to adopt a deductive or an inductive approach in a research project, the researcher must know the precise starting point of the investigation, as the 'logical ordering' of each approach is the opposite of the other (Gill and Johnson, 1991). A deductive approach "entails the development of a conceptual and theoretical structure prior to its testing through empirical observation" (Gill and Johnson, 1991, p.28)

³

Examples of the framework's for semi-structured interviews are presented at Appendix One.

while an inductive approach "involves moving from the 'plane' of observation of the empirical world to the construction of explanations and theories about what has been observed" (Gill and Johnson, 1991, p.33).

Deduction is identified as a process whereby a relationship is established between reasons and conclusions, where through the research process reasons will be found to imply the conclusion, and can therefore be seen to represent a proof (Cooper and Emory, 1995, p.26). The approach requires empirical testing, as for the approach to succeed it must be shown to be "both true and valid" (Cooper and Emory, 1995, p.26), in order to show that the conclusions reached necessarily follow from the premises, or reasons, established at the outset. In deduction, theory forming comes before research.

Induction is identified as a process where the relationship between reason and conclusion is not as strong. As Cooper and Emory note, "to induce is to draw a conclusion from one or more particular facts or pieces of evidence" (1995, p.27), where your conclusion will explain the facts available, while the facts available will support the conclusion. However, it is in the nature of an inductive approach that there may be a variety of possible conclusions. Therefore any conclusion arrived at is by necessity viewed as an hypothesis, which needs to be tested empirically. In an inductive approach, conclusions are inferred, until they are substantiated, and "the task of research is largely to determine the nature of the evidence needed and to design methods by which to discover and measure this other evidence" (Cooper and Emory, 1995, p.28).

As the preceding section shows, there would appear to be a close relationship between deduction and positivist, quantitative research, and between induction and phenomenological, qualitative research. The importance of theory, and empirical analysis links deduction and quantitative approaches, while the search for theory appears to link induction and qualitative approaches. While this can be said to generally hold true, it is not possible to argue that it is beyond debate. Clearly, theory can be tested deductively, but using qualitative methods. While such a decision would not be universally supported by authors from the positivist tradition, it is clear that other authors whose views have been presented above would argue for the validity of such an approach. The question would inevitably come down to a choice of the appropriate method of exploration being selected to address the research question to be resolved.

3.1.4 Approach Chosen for this Research

The preceding debate largely reveals the chosen approach adopted for this research. However, the author considers that it is necessary to clarify the decisions taken in order

to locate the research within the dominant traditions. There are five key observations to make about this research:

- ▶ It is applied research: the research is intended to have value for organisations experiencing conditions similar to those investigated, and to provide to the companies from the sample an insight into their experiences of industrial transformation;
- ▶ It is exploratory: the research undertaken in this thesis represents an initial review of events and interactions intended to generate a group of formal hypotheses to be tested empirically in the next stage of the research, or to be verified by other researchers;
- ▶ It is inductive: the exploratory nature of the research, aimed at hypothesis generation rather than hypothesis testing, indicates that an inductive approach is the more appropriate direction for the research to take;
- ▶ It is located within the field of phenomenology: the research is aimed at identifying issues of strategic content and causal relationships in strategic decision making. No prior theory exists, which requires the direct input of the actors in these decisions for the development and understanding of concepts to be tested at a later date. An approach based within the field of phenomenology was therefore considered the most appropriate; and
- ▶ It employs a combination of qualitative and quantitative methods of data collection, followed by analysis using purely qualitative methods: as will become clear in section 3.4, a range of methods including content and other forms of textual analysis was used in data collection in the preliminary stage of the research. This data was analysed and presented in the form of a series of case studies of the sample companies. In the field research, as shown in Section 3.5, a purely qualitative approach based upon the use of in-depth interviews and case studies was employed.

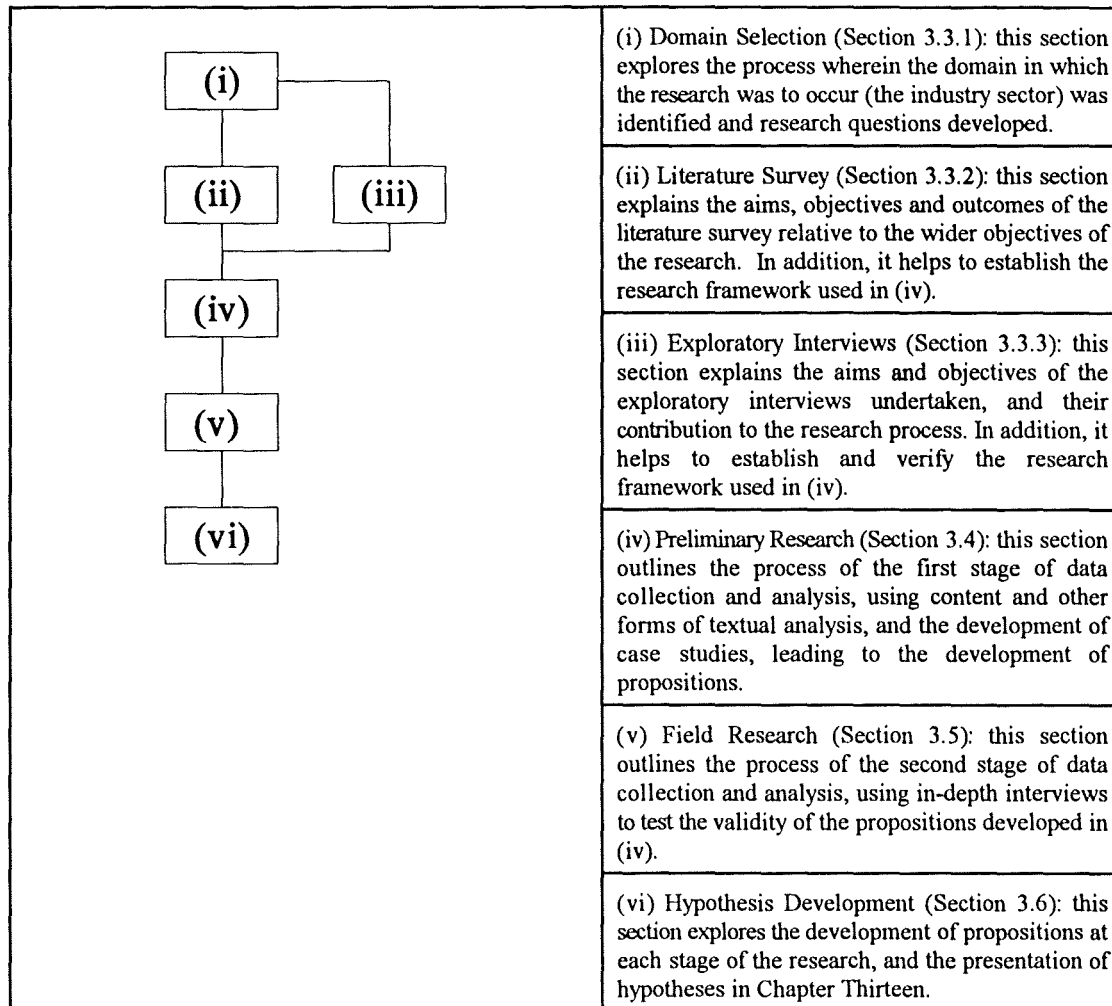
3.2 Research Process and Verification Measures

Having outlined the key methodological details of the research, it is necessary to discuss the research process in more detail. Prior to this discussion, however, it is necessary to provide a map to orient and guide the reader through the design of the research. This section also addresses the question of triangulation, and how the process of triangulation was used to assure the validity of the findings of the research.

3.2.1 A Map of the Proposed Research

Figure 3.1 provides both a map and a description of the research process, and guides the reader through the following Sections 3.3, 3.4, 3.5 and 3.6.

Figure 3.1: A Map of the Proposed Research

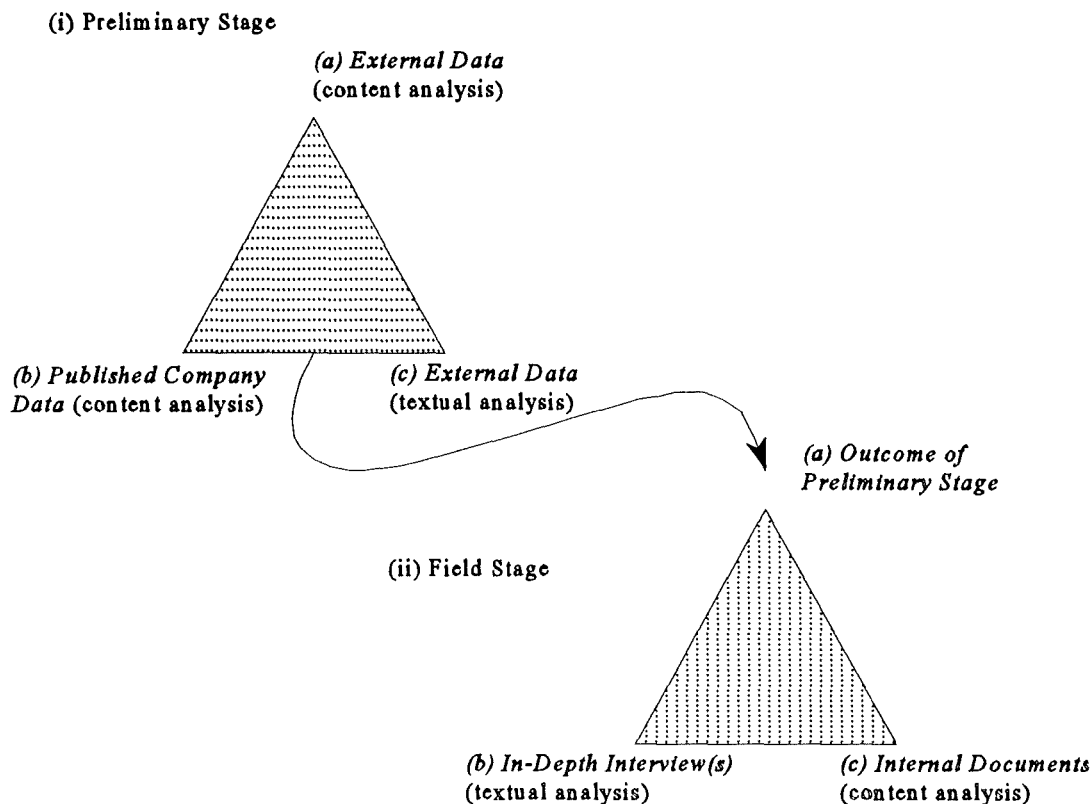


3.2.2 Triangulation

A method of overcoming the inherent limitations of a qualitative approach may be available through the application of a verification process based upon the concept of triangulation (Gill and Johnson, 1991, p.150-152; Yin, 1994, p.91-92). Triangulation is based upon the notion that data collected by qualitative methods gains credence if it is demonstrably verified, or cross checked, with other reputable sources. Preferably this verification would take the form of other researchers interrogating the same sources of data (Denzin, 1970, quoted in Gill and Johnson, 1991, p.150). Other authors, such as Miller and Friesen, argue that triangulation enables concerns resulting from the use of either quantitative or qualitative methods to be dispelled by utilising both approaches in a triangulation process (Miller and Friesen, 1982). The process therefore validates the authenticity of the data source, by agreeing that the content of the data is both reputable, and valid.

Within this project, triangulation of data sources and observations has been extremely important, and the author has sought to utilise the approach to cross-refer (a) differing sources of information, and (b) in the preliminary stage research at least, data collected by differing methodological approaches. The process of triangulation undertaken in this research is presented in Figure 3.2, and discussed below.

Figure 3.2: Process of Triangulation



3.2.2.1 Triangulation at the Preliminary Stage

As diagram (i) of Figure 3.2 shows, a process of triangulation was put in place during the preliminary stage of the research. The data was collected from a variety of sources and subjected to analysis using approaches derived from both major philosophical traditions. The majority of the data analysed in the preliminary stage of the research was externally sourced data obtained using content analysis: (a) in Stage (i) of Figure 3.1. A variety of data sources were accessed in this process, but the principal source was the Financial Times database, 1990-2000. The author examined every story relating to each of the twelve companies in the sample, and extracted data relating to a framework of corporate and business strategy variables, derived from the literature survey. The key element to stress at this point is that the analysis looked at factual data, and counted that data using

content analysis techniques. This process will be discussed in greater depth in Section 3.4. The second point of this triangulation process: (b) in Stage (i), involved a similar process utilising internally sourced data, derived from the annual reports issued by the twelve sample companies since their privatisation. In so doing, the veracity of exercise (a) and (b) could be assured by reference with each other. The third point of the process: (c) in Stage (i), involved a process of textual analysis wherein the same external sources of data as in exercise (a) were examined for evidence of opinion, rather than fact. Textual analysis, as defined by Silverman (1995), is identified as the qualitative equivalent of content analysis and allows for the aggregation of participants views rather than factual occurrences. As such, the factual data derived from exercises (a) and (b) could be cross verified with the analysis of industry observers, academics, and industry participants themselves. The outcome of this stage of the research, reported in Chapter Eight, is a series of propositions aimed at securing a solution to Key Objectives One and Two.

This set of outcomes, as Diagram (ii) of Figure 3.1 demonstrates, provide point (a) in Stage (ii) of the triangulation process undertaken in this research. Point (b) in Stage (ii) of the process is represented by the in-depth interviews undertaken in the field stage of the research. In each of the three case study companies, the views of a 'principal interviewee' on the outcomes of the preliminary stage of the research were sought. In two of the three cases, the principal interviewee was the Head of Group Strategy for the organisation, while in the other it was the Director of Human Resources. Multiple interviews were conducted within each organisation, where permissible and where they offered the opportunity to add value to the research. The objective of this activity was to cross-refer the views of actors within the same organisation and so strengthen the process of triangulation by adding an extra element of verification for the potential subjective views expressed by the interviewees, so overcoming a potential for bias within the process. This was a factor in point (c) in Stage (ii), the content analysis of any internal documentation each of the case study companies were able to provide to the author.

Therefore, in summary, the triangulation process allows the researcher to verify the accuracy of a variety of sources of data, and so aid the validation of the outcomes of the research. The process allows for any subjectivity on the part of the researcher to be eradicated, by testing his potentially subjective interpretations against the opinions and knowledge of actors actively involved in the strategic decision taking process. There have been some methodological concerns raised about the application of a triangulation

approach⁴, but the greater concern has been practical, as in relation to the pressure placed upon available time and resources. However, it is clear that the triangulation undertaken in this project consisted of activities which were entirely consistent with the underlying objectives of the project, and which did not place extra pressure upon the available time or resources. Indeed Yin argues that a case approach readily lends itself to a triangulation process (Yin, 1994, p.91), arguing that it will enable a greater degree of construct validity (Yin, 1994, p.92). Patton identifies four different types of triangulation: (a) of data sources, described as data triangulation; (b) among different evaluators, described as investigator triangulation; (c) of perspectives on the same data set, called theory triangulation; and (d) of methods, called methodological triangulation (Patton, 1987). This project would appear to sit most comfortably within the realm of data triangulation, although the use of both content and textual analysis means that methodological triangulation has also occurred.

3.3 Domain Selection, Literature Survey and Exploratory Interviews

This section provides the methodological background to the two preceding chapter's. This involves briefly reviewing the process of domain selection, and the generation of research questions, the process involved in the survey of literature, and the nature and aims of exploratory interviews within this research project. Firstly, domain selection.

3.3.1 Domain Selection

Section 1.2 addressed a number of factors which influenced the choice of the UK electricity industry as a suitable domain for study. These included: the global reach of privatisation; the issue of providing insights into the effective management of former SOEs; the potential deficiencies in existing prescriptive approaches (as discussed in Section 3.3.2); and the inherent value of understanding more about how organisations manage paradigm shifts, in situations of industrial transformation. While these factors provided justification for the need to study an industry, they did not explain why the UK electricity industry was an appropriate choice for a study of this importance.

The UK electricity industry was identified as an appropriate domain for research for a number of reasons, which were set out in an early paper developed from this research (Ghobadian *et al*, 1997). The UK industry, it was argued, provided an estimable research opportunity. This was due to the fact that:

4

For example, a researcher will need to be certain that the findings of the process of triangulation are indeed valid, by ensuring that each aspect of the process is involved in an analysis of the same variables. This may prove difficult in certain circumstances.

- ▶ all of the companies in the sample were created on the same day, and all were originally part of the same organisation prior to privatisation;
- ▶ each possessed very similar, although not identical, characteristics⁵ in terms of organisational and managerial structure, corporate culture and ethics, core business activities, business practices and procedures;
- ▶ all of the companies shared the same relationship with the industry's regulatory authorities;
- ▶ there were only twelve companies in the industry, and while primary access was still to be an issue, the small size of the sample allowed the researcher to build a comprehensive and intimate picture of each company from the existing and plentiful data sources; and
- ▶ they enjoyed a common interaction with a changed competitive environment.

Allied to these features of the companies of the industry sample are other key aspects of the industry, which were identified during the literature survey:

- ▶ it was the first industry of its kind to be de-integrated (Burton, 1997);
- ▶ it was the first industry of its kind to experience ordered competition (Burton, 1997) - that is competition was a legislative requirement, rather than developed due to market pressures;
- ▶ it was the first industry of its kind to include a commitment to full competition in domestic supply; and
- ▶ there was a suggestion, later confirmed (OFFER, 1999c, UK001) that the companies had been allowed autonomy in determining the content of strategy as well as other issues such as organisational structure, and so on.

In short, the decision to explore the chosen industry was a product of a variety of complementary factors: there was an identified need for the research; the sample industry was small and thought to be accessible; the sample provided a controlled environment, wherein all companies started from a similar position, but there was enough circumstantial evidence by the time the research began⁶ to suggest that differences were emerging; and the author believed that the outcomes of the survey would make a contribution to existing

⁵

Details of the twelve companies, and their particular characteristics are presented in Section 4.2 of Chapter Four.

⁶

The project began officially in October 1994.

knowledge, through publication in the management literature⁷.

3.3.2 Literature Survey

The importance of the literature survey as a first stage in any research project is well understood (Bell, 1987, Howard and Sharpe, 1983, Veal, 1992, among many). Gill and Johnson identify the key aims of a literature review as demonstrating some awareness of the current state of knowledge in the chosen field and the limitations of the existing literature (Gill and Johnson, 1991, p.21), and implicitly the researcher armed with this knowledge is therefore in a position to gauge what sort of contribution to the existing literature the proposed research is intended to make. The literature review provides the relevance of the research.

Within this thesis, a wide ranging literature review has been conducted. This has had two primary focusses: the wider management literature exploring issues relating to strategy (Chapter Two), and the narrower literature exploring issues relating to privatisation (Chapter Four). The objectives of each were as follows:

- (i) Management literature: the objectives of this first part of the literature survey were four fold:
 - ▶ to establish an understanding of the key concepts and definitions used throughout the thesis;
 - ▶ to identify and review key factors influencing the content of organisational strategy;
 - ▶ to identify and review existing frameworks, or systems of classification, which could be utilised by the author in the undertaking of the proposed research; and
 - ▶ noting any deficiencies that may exist within existing concepts, definitions and frameworks when applied to industries sharing the same characteristics as the industry under study.
- (ii) Privatisation literature: the objectives of this second part of the literature were three fold:
 - ▶ to establish an understanding of the key concepts underlying the policy and practice of privatisation;
 - ▶ to identify the events of the UK privatisation programme as a whole, and the privatisation of the electricity industry in particular; and in so doing

7

Formally five academic journal articles have been published as a result of the research to date along with a number of conference papers, another is in press, while a number of others are planned (please see Ghobadian *et al*, 1997, 1998, 1999, Ghobadian and Viney 2000, James *et al*, 1997, 2001) .

- understand the context within which industrial transformation has occurred.

The literature review therefore provides the context within which the research occurs, an understanding of the location of the research with respect to existing work in the field and of the key concepts which shape the existing literature, an idea of deficiencies within the literature that the research will seek to address, and a series of concepts, frameworks and tools that can be employed by the author to advance the proposed research. Discussion of the identity and nature of the frameworks to be utilised will follow below.

3.3.3 Exploratory Interviews

In support of the formal literature survey, a number of exploratory interviews were held with figures from the industry under investigation. The principal objective of these early interviews was to act as a sounding boards for ideas and observations flowing from the textual and documentary research undertaken in the preliminary stage (Section 3.4). As stated previously, a schedule of all of the formal interviews undertaken for this research is presented in Section 1.5.2.1. Of these the key interviews were UK002 (Eastern Group, 1995b), with the then of Eastern Group, and UK001 (OFFER, 1999c), with the then for OFFER. Other interviews, principally with managers from US companies and non-case study UK companies occurred as per the schedule. In addition, other interviews occurred informally with interested academics, members of trade unions, other employees of RECs and so on. To an extent, these ‘exploratory’ interviews were on-going throughout the research and so the use of the term ‘exploratory’ is perhaps inappropriate. It is perhaps more appropriate to term them as ‘networking’ or as ‘confirmatory’ interviews conducted in a non-case study environment. The literature describes such interviews as ‘elite interviews’.

3.3.4 Outcomes of Exploratory Stage

Before moving on to identify the process of the preliminary research stage, it is necessary to briefly establish the outcomes of the exploratory stage. These were four fold:

- the establishment of the research domain, and a number of key and supporting objectives of the research (see Section 1.3);
- as part of these objectives, the establishment of two ‘core’ propositions which would be developed over the course of the research to become formal hypotheses to be tested in subsequent confirmatory research in other research projects;
- the development of an understanding of the key concepts within the literature, and of the inherent deficiencies of these key concepts; and
- the identification of a number of systems of classification from the literature which

would be used to aid the analytical process.

3.4 Preliminary Stage Research

This section aims to establish: the aims of the preliminary stage of the research; the features of the process; an assessment of the issues raised by the techniques employed at this stage; and its outcomes.

3.4.1 The Aims Of the Preliminary Stage

Essentially, the aims of the preliminary stage of the research involve progressing the first two key objectives of the research: with respect to establishing an understanding of the content, and of the influences on the development of strategy, among the sample companies. As part of this process, this stage of the research also seeks to elaborate upon the 'core' propositions, with the aim of developing more specific propositions to be further developed towards working hypotheses later in the research. This stage of the research also helps to test the validity of the frameworks chosen by the author to shape the research process, and through triangulation of data sources and data gathering techniques, to verify the work undertaken to date.

3.4.2 Features of the Preliminary Stage

This stage of the research features twelve individual case studies of the industry sample companies, which are presented in Chapter's Five to Seven. Each of these case studies is developed with reference to existing sources of data, analysed by means of content and textual analysis. Within each case study, data is reported and observations made and assessed by reference to concepts derived from the literature, with respect to the content of strategy and the likely influences upon the strategy producing that content. Each chapter features an analysis of the findings, which are drawn together in Chapter Eight where preliminary conclusions are drawn with relation to Key Objectives One and Two. In addition, the tentative core propositions presented in Chapter One are expanded as a result of this preliminary stage.

The grouping of RECs in each of these three chapters was determined by analysis conducted by Holmes (1992), which divided the RECs into four discrete groups, based upon (i) their geographic location, and (ii) their prospects in the new environment. This grouping is shown at Table 3.4. Holmes' expectation was that location would play a significant part in the content of the strategies of the RECs. By using his model as the basis of the initial analysis, it may be possible to determine to what extent Holmes' view; that market will influence tactics/strategies, can be supported, as part of the wider review

of the key drivers of strategy within the industry. This analysis will be considered in full in Chapter Eight. Therefore, and despite the “inevitably large generalisations” (Holmes, 1992, p.54) required to split the sample, the following division has been pursued.

Table 3.4: Composition of Sub-Samples Presented in Chapters 5-7

Title	Companies	Definition	Chapter Location
The Northern Industrials	Manweb Norweb Northern Yorkshire	“these four serve the former heavily industrialised areas of the country which have suffered long term decline, but where industrial demand is still dominant. Population drift is beginning to stabilize but, long term, the areas they serve are shrinking in both demographic and industrial terms, despite numerous bright spots of industrial development”	Chapter Five
The Midlands	East Midlands Midlands	“a region where industrial activity is stabilising and probably reviving, following the decline of the motor industry. Demand is fairly evenly spread between domestic, industrial and commercial sectors”	Chapter Six
The Agricultural RECs	SWALEC SWEB	“mainly rural areas, now that heavy industry in South Wales has all but disappeared, with a widely-spread population and heavy reliance on domestic and light industrial users”	Chapter Six
The Southern Suburban RECs	Eastern London Seeboard Southern	“four of the biggest RECs, covering the most affluent part of the country, with comparatively little heavy industry, but with growing commercial demand and population increasing”.	Chapter Seven

3.4.3 Methodological Issues

The methodological issues raised at this stage of the research concern: the choice of research framework, the choice of data collection and analysis techniques, and the concept of triangulation. Each are addressed separately.

3.4.3.1 Choice of Research Framework

The choice of data collection and interpretation framework’s utilised in this research was made in Chapter Two, after a study of the relevant literature. It was decided that the content of each company’s strategy would be explored using:

- ▶ Pearce and Robinson’s typology of grand strategies (Pearce and Robinson, 1994);
- ▶ Porter’s (1980) typology of generic business strategies and Chrisman *et al*’s (1988) taxonomy of generic business strategies; and
- ▶ Miles and Snow’s (1978) typology of organisational strategy, structure and process.

Justification for the selection of each was presented in Section 2.5. However, to reiterate, these frameworks were chosen because:

- ▶ they are widely cited, tested and established conceptual frameworks;
- ▶ they provide an estimable utility by separately exploring the key issues the research seeks to address, and jointly complementing each other to provide a full coverage of all of the main aspects under investigation, and in particular Objectives One and Two; and
- ▶ the testing and verification of each of these frameworks in a regulated setting is the third key objective of the research project, as identified in Chapter One.

3.4.3.2 Choice of Data Collection and Analysis Techniques

As stated above, each of the case studies presented at this stage of the research features data is derived from the literature. Chapters Five to Eight make use of existing textual and archival source data drawn from a series of principal locations. Chiefly, these data locations are:

- ▶ The Financial Times 1988-2000;
- ▶ The Economist 1988-2000;
- ▶ The RECs Pathfinder Prospectus, issued by Klienwort Benson in 1990, and all subsequent prospectuses issued by the RECs when shares have been sold;
- ▶ Company Annual Reports 1989-2000;
- ▶ Annual reports and other reports from regulatory bodies;
- ▶ Press releases, from companies, and regulatory and governmental bodies;
- ▶ Analysts reports;
- ▶ The academic literature; and
- ▶ Other sources of information which will be duly attributed.

Of these sources of data, the three most commonly used were: the Financial Times, for details of day-to-day business decision making and activity; the pathfinder prospectus, for details of the starting point for each of the companies; and company annual reports, for details of more in-depth strategic thinking. The use of annual reports is common in academic research, but it is perhaps necessary to justify the reliance upon the Financial Times for much of the detail in relation to each company's 'Key Events' section. The Financial Times is widely recognised as an impartial, accurate and reliable source of business news and one of the principal sources of business information available. Its focus on business provides a researcher with the certitude that the full spectrum of events have been reported upon within its pages. The importance of the Financial Times is further deepened by the current paucity of coverage of issues relating to privatisation within the management literature, as discussed in Chapter's One and Four. The interrogation of the

various sources of secondary data was undertaken using (a) content analysis and (b) other forms of textual analysis. It is perhaps appropriate to briefly identify the key aspects relating to the use of concepts such as content analysis at this point in time.

3.4.3.2.1 Content Analysis

The concept of content analysis is based upon the need, identified in the literature, for an approach which permits large quantities of textual data resources: "a very convenient and easily handled source of raw material for the analyst" (Beardsworth, 1980, p.372) to be analysed and verified scientifically and so produce "hard, objective data" (Beardsworth, 1980, p.372). This need reflects the desire on the part of researchers to access rich sources of data, such as provided by newspapers and other printed media, which may otherwise be unavailable in such a way that subjectivity is removed from the process, and outcomes are validated. Content analysis, in its many forms, has been identified as an appropriate technique in situations of this kind.

One definition available in the literature is that proposed by Budd *et al* (1967), which states that "content analysis is a systematic technique for analysing message content and message handling - it is a tool for observing and analysing the overt communication behaviour of selected communicators" (Budd *et al*, 1967, p.2). Holsti adopts a wider perspective, identifying the concept as follows: "content analysis is any technique for making inferences by objectively and systematically identifying specified characteristics of messages" (Holsti, 1969, p.14). As Beardsworth notes, the key to this latter definition are its core characteristics: its objectivity, systematic approach and generality (Beardsworth, 1980, p.374). Using content analysis, he argues, involves explicitly formulated rules and procedures. He further notes that there is an assumption that the outcomes of content analysis will be analysed using statistical methods. Silverman identifies this aspect of content analysis as placing the technique in the quantitative/positivist school (Silverman, 1993, p.9-10), and sees it as an attempt to provide a scientific means of analysing data that could otherwise only be analysed subjectively.

Content analysis, therefore, could be criticised as an opportune method of making sense of otherwise uncategorisable data. There are two strains to the process of content analysis: firstly, of counting the number of mentions a particular variable, "the lexical contents and/or syntactic structures of documents" which normally takes actual words as the basic content elements, and secondly, of counting the instances in which particular themes arose in the texts being examined (Beardsworth, 1980, p.375). In both cases, an inference would be placed upon the outcomes, following statistical analysis. The

technique may be subject to criticism. Beardsworth himself notes that despite the seemingly 'hard, objective' nature of the process, it would be unwise to infer any scientific virtue to the outcomes (Beardsworth, 1980, p.392). Decisions to present stories in newspapers, for example, are based upon subjective decisions and can not be guaranteed to represent an objective view. The author accepts this critique, and suggests that the process of triangulation proposed in this research provides an opportunity to judge the value that may be attributed to the outcomes of this process. It is now necessary to discuss the process of content analysis undertaken in this research, and perhaps suggest a variation upon the core concept.

As noted above, Beardsworth identified two strains of content analysis, one based upon textual analysis and one based upon theme analysis⁸. The author has selected the theme analysis approach, for the following two reasons:

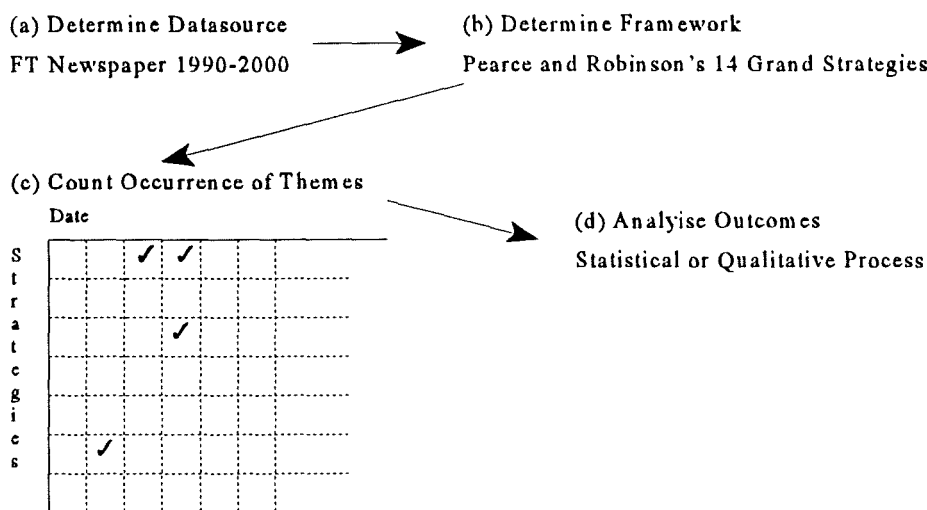
- ▶ the authors' interest is in noting behaviour in a limited range of easily categorizable circumstances which, as they are clearly defined areas of strategic decision making, are closer to themes than to lexical or syntactical structures; and
- ▶ the information the author is seeking will not appear in the texts in the same form as the themes mentioned previously. Hence, there is a requirement upon the part of the author to interpret the data, and assign themes. Thus a textual approach would be inappropriate.

As Beardsworth suggests, the use of content analysis 'involves explicitly formulated rules and procedures', and the rules and procedures followed here were as shown in Figure 3.2. The first stage of the process, (a) in Figure 3.3, involved identifying the data source, which in this case was a database of the Financial Times from 1990 to 2000. Similar data sources were provided by The Economist, company annual reports and so on. Having identified the data source, a research framework, (b) in Figure 3.3, was assigned, which in this case involved Pearce and Robinson's framework of Grand Strategies (1994), but also included Chrisman *et al's* (1988) taxonomy of business strategies. Stage three involved counting the instances when the grand strategy themes appeared in stories contained in the FT database, and transcribing these events into a table, (c) in Figure 3.3. This occurred for all twelve companies of the sample. The outcomes of this exercise were then qualitatively interpreted, (d) in Figure 3.3. The author argues that a qualitative

8

Beardsworth's use of the word 'textual' in this context is unhelpful, as other authors, such as Silverman (1993, p.9-10), use the phrase to describe approaches for analysing text which are not quantitative. However, as Beardsworth's notion of 'textual analysis' is not used in this research, this possible confusion will be noted, but not acted upon.

Figure 3.3: Process of Content Analysis: A Themic Analysis



analysis was necessary in this case because:

- ▶ the data was not a sample drawn from the complete database, but rather represented the position for industry sample as a whole. Statistical inference was therefore unnecessary and the author argues that this approach makes the analysis more reliable than had a more common form of content analysis been pursued; and
- ▶ despite the use of a quantitative technique for data collection the thrust of the research, as suggested by Section 3.1.7, is qualitative. The author argued earlier that a qualitative approach was necessary to understand the complex relationship between all of the factors involved, and hence the qualitative analysis of even this quantitatively gathered data was wholly appropriate.

The outcomes of this analysis is reported extensively in Chapter's Five to Eight.

Before moving on to discuss the issue of triangulation, it is necessary to make two further points in relation to content analysis. The first of these is that while 'formal' content analysis occurred within the research, other forms of textual analysis (as defined by Silverman rather than Beardsworth) also occurred. Silverman notes that qualitative textual analysis aimed to "understand participants' categories" (Silverman, 1993, p.9) which the author takes to imply that opinions, rather than facts, can be culled from large expanses of textual data. The implications of this actions are shown in relation to triangulation. The second of these concerns Willer and Willer's (1973) concept of 'systemic empiricism'. Systemic empiricism is a form of content analysis, which appears close to that adopted by the author. Its features are that it is inductive, exploratory, and intended to identify generalisations based upon a series of categories, such as corporate

strategy options, which occur across a sample and across time. Its authors claim that the key difference is that systemic empiricism does not make the claims of scientific validity as does content analysis. The attraction of the concept of systemic empiricism is that it explains the approach adopted by the author, although the author would argue that his approach is more valid, as all data is explored and sampling is not undertaken.

3.4.4 The Process of Triangulation

The concept and process of triangulation in relation to this research were discussed at some length in Section 3.2.2. Therefore, it is intended to only briefly review the actions taken at this stage of the research. As Figure 3.2 demonstrated, triangulation took the form of a comparison of outcomes resulting from the analysis of: (a) externally sourced factual data (derived from the Financial Times, Economist *et cetera*) analysed by content analysis; (b) internally sourced factual data (derived from annual reports, offer prospectuses *et cetera*) analysed by content analysis; and (c) externally sourced opinion data (also derived from the Financial Times, Economist *et cetera*) analysed by textual analysis. The aim of this process was to:

- ▶ identify and verify the nature of the content of the strategies developed by the companies of the sample industry;
- ▶ develop a rational explanation as to why that particular content had developed in each case, and
- ▶ develop an understanding of the strategic combination operated by the company, and how that led to the content identified.

The process of triangulation allows for the outcomes of this stage of the research to be agreed and verified, and thus provide a solid basis for the next stage of the research. The outcome of this stage of the research involved the development of ten formal propositions to be tested in the field stage of the research.

3.5 Field Stage Research

This stage of the research discusses: the aims of the field stage of the research, the features of the process, an assessment of the issues raised by the techniques employed at this stage, and its outcomes.

3.5.1 The Aims Of the Field Stage

Essentially, the aims of the field stage of the research involve continuing the progression of the first two key objectives of the research from the preliminary stage. This involves attempting to verify or falsify the ten propositions developed at the end of the preliminary stage of research, as part of the process of developing formal hypotheses for future

testing. The principal aims of the field stage, and its relationship to the preliminary stage are discussed at length in the concluding remarks to the preliminary stage, made in Section 8.5. To a large extent, this stage of the research is aimed at validating the analysis conducted to date, by the application of a further process of triangulation using both different sources of data, and different methods of data collection.

3.5.2 Features of the Field Stage

This stage of the research features three individual case studies of Eastern Group, Seaboard and SWEB which are presented in Chapter's Nine to Eleven. Each of these case studies is developed with reference to primary sources of data, in the form of a series of in-depth semi-structured interviews undertaken with a number of managers from each company. These are analysed by means of textual analysis. Within each case study, data is reported and observations made and assessed by reference to concepts developed in the preliminary stage of the research, once again with respect to the content of strategy and the likely influences upon the strategy producing that content. Each chapter features an analysis of the findings, which are drawn together in Chapter Twelve where final conclusions are collected together with relation to Key Objectives One and Two, as well as to Key Objective Three. In addition, the formal propositions presented in Chapter Eight are expanded as a result of the work of this field stage, in support of Key Objective Four.

3.5.3 Methodological Issues

The principal methodological issue raised by this section of the research concerns the use of case studies, and their internal and external validity. As discussed extensively in Section 3.1.2.1 of this chapter, the author argues that cases are valid for the collection, analysis and reporting of data, and the most appropriate media for the investigation at hand. The process by which case studies aided the analytical process will be discussed with reference to the process of triangulation in the following section.

3.5.4 The Process of Triangulation

The concept and process of triangulation in relation to this research was discussed as some length in Section 3.2.2. Therefore, it is intended to only briefly review the actions taken at this stage of the research. As Figure 3.1 demonstrated, triangulation took the form of the comparison and cross-verification of: (a) the outcomes of the preceding preliminary research stage, derived from published sources of data; (b) internally sourced interview data (derived from a bank of interviews with senior managers in each of the case study companies) reviewed by textual analysis; and (c) internally sourced factual data (such as internal reports, and organisational diagrams derived from the interviewees),

analysed by textual analysis. The aim of this process was to:

- ▶ critically review the observations and conclusions drawn from the preliminary stage research, which by implication would include the formal propositions developed at the end of the preliminary stage, against the views of managers and internal documents from each of the case study companies;
- ▶ verify the potentially subjective interpretations of individual managers by cross referring them with the views of other managers interviewed during the process, to ensure that the potential for bias, ignorance or misinterpretations of events is minimised; and so
- ▶ allow for a bank of propositions to be put forward, based upon an extensive and rigorous testing and verification procedure.

In so doing, the ten initial propositions developed at the end of Chapter Eight can be modified, if necessary, and put forward in Chapter's Twelve and Thirteen as hypotheses to be tested in future research.

3.6 Hypothesis Building

The stages of the development of propositions in this research has been discussed throughout this chapter, but it is perhaps necessary to briefly explore this question in greater depth. As stated earlier in this chapter, this research has been identified as being primarily exploratory in nature, and the exploratory nature of the research is reflected in its inductive approach. As was also noted earlier, the stage of development of theory was crucial in determining the inductive nature of this research. This research was intended to develop a set of hypotheses which would be tested in later research, rather than in the research reported here. This project was not, therefore engaged directly in testing theory, but in developing concepts which may later become theory.

Cooper and Emory differentiate an 'hypothesis' from a 'proposition' as follows. Where a 'proposition' is "a statement about concepts that may be judged as true and false if it refers to observable phenomena" (Cooper and Emory, 1995, p.39), an "hypothesis" is a proposition formulated for empirical testing. They also note that hypotheses can assign variables to cases. They represent a way in which the veracity of a theory may be tested, by attributing characteristics to that theory. Propositions are hence a lower form of statement, one's for which supporting observable phenomena must be identified prior to their development into hypotheses. This research seeks, therefore, to undertake this process. Tentative propositions are established in Chapter One. Observable phenomena are assembled and analysed in Chapter's Five to Eight. The tentative propositions are

then refined, in Chapter Eight, and further tested by exposure once again to the same observable phenomena, albeit derived from an alternative range of sources. These propositions, duly judged to be true or false, are then presented as hypotheses in the final chapter of the thesis, and in so doing mark the beginning of the next stage of the intended research.

3.7 Concluding Remarks

Earlier in this chapter, the importance of the application of the 'scientific method' to social science research was referred to. In closing this assessment of the methodological approach adopted in this thesis, the relationship of the scientific method to this research is discussed. Cooper and Emory (1995, p.12-13) present seven characteristics defining the 'scientific method', and their underlying rationale, which are briefly summarised here. Effectively, they represent a checklist against which the validity of any research project should be judged. Cooper and Emory's characteristics are presented in bold, are explained in bracketed arabic type, and the comments of the author with respect to the research's ability to achieve these characteristics in presented in italics.

- 1) **The purpose of the research should be as clearly defined as possible, and should avoid any degree of ambiguity. In short, the aims and objectives of the research should be transparent, and effectively communicated to the reader** (Without such clarity, a reader may feel that the researcher lacks the necessary qualities to undertake the research, and may call into question the findings of the research, whatever their apparent value). *The objectives of the research and justification for their selection was provided in Section 1.3. The author contends that these objectives are clear and unambiguous;*
- 2) **The details of the research approach should be clearly defined, and sufficient detail provided so that they are replicable by another researcher if felt necessary. This includes a requirement of full and frank disclosure of locations of data, and means by which they were obtained** (Without this procedural detail, a reader may find it impossible to "estimate the validity and reliability of the data" (Cooper & Emory, 1995, p.12), and may cause them to view the outcomes with reduced confidence). *As has been noted, two potential problems exist in this respect: firstly, case-based approaches do not lend themselves readily to such replication, and secondly, that the identity of interviewees within the case companies is to be kept in confidence in any published outcomes of the research. However, it has also been stated that in the*

main the key information reported in the project is available from externally verifiable sources, and hence future verification of the majority of the research should be possible. It is also hoped that the process of triangulation provided within the report increases the confidence of the reader that the data presented is accurate, and derived from reputable sources. Furthermore, the case studies followed a set structure. This is addressed fully within the discussion conducted in this chapter, and future researchers could replicate this approach;

- 3) **The design of the research project should be fundamentally concerned with producing results which are as objective as possible given the context of the research** (All efforts necessary to eliminate the possibility of personal bias in collecting and recording data must be taken, to ensure the reader's confidence in the analysis of the data collected, and the reported outcomes). *The process of triangulation, using differing sources of data, and different data collection methods should reassure the reader that the requirement has been fulfilled. Furthermore, the cross verification of the potentially subjective material derived from conducting in-depth interviews with more than one manager, should provide added reassurance;*
- 4) **The validity of the research process requires a frank admission by the researcher, of any perceived or potential flaws in the design and execution of the research, and their impact upon the reported outcomes** (It is important that the researcher communicates his or her awareness of any potential flaws in their research, in order to anticipate any concerns a reader may have as to the validity of the research and to reassure the reader that the researcher has taken any procedural frailty into account in the research design). *This has been a principal objective of this chapter, and key methodological issues related to the approach are discussed in Section 3.4.3;*
- 5) **The preparation and presentation of data will utilise the appropriate research techniques, and the true nature of the findings will be reported, whatever their impact upon the project's underlying hypothetical objectives** (It is crucial for the researcher to explain the process by which data has been collected and analysed to ensure that its intrinsic validity and reliability is beyond question. This is necessary to show that the findings of the research can also be accepted as being valid and reliable). *Given the qualitative nature of the research, this is a less serious concern than if the research had been quantitative. Also, given the descriptive nature of much of the research, there is no apparent gain*

to be achieved from misrepresenting the outcomes. In addition, all of the cases have been checked by participant interviewee's to ensure accuracy;

- 6) **Conclusions should be confined to those justified by the data of the research and limited to those for which data provide an adequate basis** (The objectivity of the research process is dependent upon the findings of the research being based solely upon the intended and detailed research process. It is advisable not to extrapolate widely from the data collected; for example to assume that the patterns observed from a small sample would in any way be representative of a larger population. Making unjustified claims for the findings of the research will undermine overall confidence in the reported outcomes, regardless of the method pursued and the strength of the findings). *The process of triangulation, referred to throughout this chapter and addressed in relation to data in Chapter's Eight and Twelve, satisfies this concern;* and
- 7) **The confidence of readers will be greater if the researcher has a proven record of integrity, application of the scientific method, and experience of successfully managing complex research questions.** *The nature of the doctoral process does mitigate against such reassurance, but the author has already published extensively from the research which is hoped to be a surrogate for this requirement which can only be developed over time.*

Given the explanatory/descriptive nature of this study, however, all of these criteria can be said to apply, and the success of the outcomes of the project are to be judged against these characteristics.

4.0 Introduction

The privatisation of the electricity supply industry (ESI) in the United Kingdom (UK) has been described as “the biggest and most radical project in the extensive UK privatisation programme” (Surrey, 1996a), within “by far the largest of the UK’s nationalised industries in terms of turnover and capital employed” (Cheshire, 1996). It was, in short “the most ambitious exercise in the whole UK privatization programme” (Yarrow, 1995, p.62), and recognised as the “most technically and politically difficult” privatisation (Thatcher, 1993, p.682) even among the very highest levels of government. However, a number of observers have criticised the process suggesting that the system produced by the privatisation is at best an hybrid “which has caused many new difficulties without establishing a fully commercial market”, and has seen reforms which have succeeded only in creating an impractical solution to the problems it was intended to resolve (Holmes, 1992, p.1). The system, it is argued is a product of radicalism that was wholly unintended: “The system evolved in response to criticisms of earlier utility privatisation’s and the structure chosen was heavily shaped by other government objectives, such as reducing the power of the coal-mining unions” (Thomas, 1996, p.63). Any suggestion, therefore, that the process was in any way systematic has been called into doubt.

However, and despite these concerns, there is no doubting the importance of the industry’s privatisation to the ongoing development of awareness of the concept of privatisation. For while Britain was not the first country to engage in reform of its electricity industry, it was the first major industrialised country to do so (Surrey, 1996, p.11). Additionally, Britain has witnessed the implementation of a wider range of conceptual components than experienced in other countries. For instance, the UK has witnessed all of the following:

- ▶ both vertical and horizontal de-integration;
- ▶ forced competition in generation and in supply;
- ▶ full competition for supply to domestic customers;
- ▶ regulatory action to prevent reintegration; and
- ▶ substantial forward direct investment through changed ownership.

The particular feature of the ESI, and the focus of this research project, has been the impact of the introduction of competition for all consumers within the industry, an action

for which “there is no real precedent elsewhere in the world” (MacKerron and Boira-Segarra, 1996, p.110).

This Chapter is intended to outline the motivations for both the whole programme of privatisation in the UK in general, and the privatisation of the ESI in particular. In doing so it is intended to place the strategic development process described and assessed in the remainder of the research project in context. In particular, it is the objective of this chapter to explain the nature of the factors driving, and constraining, the strategy processes of the companies under assessment. The chapter is therefore structured as follows: In Section 4.1, the history of privatisation in the UK is explored, with a particular emphasis upon the underlying socio-political motivations behind the process. This analysis will include an exploration of the rationale underlying the privatisation of the ESI.

In Section 4.2, the structure of the ESI after privatisation is explained. This involves establishing how the industry was de-integrated: both vertically and horizontally, introducing all of the companies and institutions created by the process, and explaining their interrelationships. Section 4.3 explains the importance of competition to the privatisation process within the ESI, and the impact that the introduction of competition has had upon the companies of the ESI, while Section 4.4 outlines the regulatory environment that the companies of the ESI have been working within. Section 4.5 reprises the key events over the twelve years since privatisation, and Section 4.6 provides a brief summary of the chapter.

4.1 Brief History of Privatisation in the UK

While a clear understanding of the origins of the privatisation process in the UK has been formed, there is still a degree of contention as to the importance of each of the factors underpinning and driving this significant political and economic programme. Many explanations have been provided, but no clear consensus has emerged as to the appropriate weighting that should be applied to these factors influencing change. This section seeks briefly to outline both the origin of the process, and also to establish a clear understanding of the underlying rationale for the programme, in order to explain why the ESI was privatised in the way that it was.

As Bishop and Kay note, for the majority of the Twentieth Century there was a strong tendency towards increasing the scale and scope of government intervention in the economy (Bishop and Kay, 1992, p.193). However, during the 1980's this tendency was reversed, for a variety of reasons. The UK has been at the forefront of the change - “the

most extensive privatisation programme in Western economies” (Bishop and Kay, 1992, p.193). The process in the UK has principally witnessed three key characteristics in what has been described as a series of “path-breaking experiments by Government in industrial economics” (Thomas, 1996, p.63). These are:

- i) a shift in ownership from state to private hands;
- ii) a corporate restructuring leading to the creation of new or radically re-shaped companies; and
- iii) a change in procedures by which the sector operates, usually involving an injection of competitive procedures, and market liberalisation.

Before exploring the question of the privatisation of the ESI itself, it is necessary to briefly explore the motivations underpinning the UK’s privatisation programme. These were either political or economic in nature.

4.1.1 Political Origins

Privatisation became a key feature of each of the Conservative administrations between 1979 and 1997. However, when the first administration of Margaret Thatcher came to power in 1979, there was little or no direct mention of privatisation in the Party’s manifesto, and no indication of the importance that this philosophy was going to assume. Indeed, the eminent economist Beesley argues that it was not until the privatisation of British Telecom in 1984, during the second of these four Conservative administrations that the true significance of privatisation was revealed (Beesley, 1997a, p.43). Rees has argued that the forerunner of privatisation was perhaps the general policy of ‘rolling back the state’ that was a feature of Conservative policy from the 1960’s onwards, but which had been damaged by the failures of the Heath administration in this regard between 1970 and 1974 (Rees, 1994, p.44).

The policy of privatisation, especially in relation to public utilities, was a direct reversal of a long standing and until then relatively consensual opinion that such industries should be managed by the State for the people. The reasons for this consensus have been identified as resulting from a wish to avoid previous market failures, justifying state ownership, vertical integration and monopoly, as identified here by Helm and Jenkinson: “State ownership ‘resolved’ the conflict of interest between the private and public good; vertical integration ensured that customers bore the risk of upstream sunk investments; and monopoly prevented the destructive competition which was widely thought to have pervaded the industries in the 1920s and 1930s” (Helm and Jenkinson, 1997, p.1)

However, the consensual politics of post war Britain were on the wane by the end of the 1970's, and there was a feeling abroad in the country that government was participating in areas of industry that it had no real place to be; defined as almost everywhere except defence (Holmes, 1992, p. 13). In addition, the new Conservative administration was looking for more radical economic solutions to achieve their economic and political objectives. Hence the use of privatisation which as the next section explores provided a ready answer to all of these objectives.

4.1.2 Economic Origins

In the main, the principal characteristics of the UK privatisation process were shaped by the views of a small group of notable industrial economists, who were strongly influenced by neo-classicist economists, and in particular Hayek (1948, 1978) whose work on the meaning, importance and application of competition underpinned much of the structural design. Principal among the UK economists involved in the structural design were the late Professor Michael Beesley of London Business School, and Professor Stephen Littlechild of Birmingham University; members of the 'Austrian' school of economic thought. Professor Littlechild is perhaps the economist most closely associated with the process, as it was his report which was used as the basis for the regulation of British Telecommunication in 1983 (Littlechild, 1982), as well as being the first Director General of Electricity Supply (DGES) from 1989 until 1998.

In a seminal work on the principles of privatisation, first presented in 1983 (Beesley and Littlechild, 1983) and revised and reprinted in 1997 (Beesley and Littlechild, 1997), Beesley and Littlechild outline the case for privatisation, and discuss the issue of privatisation in relation to three key areas: firstly, the criteria to be used to decide whether a particular industry is a suitable case for privatisation; secondly, how an industry should be structured and regulated after privatisation; and thirdly, what should be the priorities for industries that have been privatised. They are at pains to stress that in their assessment they aimed only to consider the economic benefit associated with privatisation, and were not aiming to make judgements based upon political expedients.

They proposed that the best way in which to assess an industry's suitability for privatisation is to employ the criterion of aggregate net benefit to consumers. They argue that unless this benefit promises to be considerable, then the political costs involved would not be worthwhile (Beesley and Littlechild, 1997, p. 27). Having judged that the consumer will benefit from a privatisation, the same criterion must be used to shape the following six crucial decisions to be taken in advance of the privatisation:-

- i) the number of companies, the assets and liabilities of each, and their intended aims and scope of business;
- ii) the structure of the industry in which the company (or companies) will operate, especially the conditions of new entry;
- iii) the regulatory environment, including competition policy, efficiency audits, controls (if any) on prices or profits;
- iv) the non-commercial obligations: in respect of employment, prices or provision of services, and sources of funding for these obligations;
- v) the timing of the privatisation scheme, including the floatation date and the times at which new competition is allowed and/or regulation instituted; and
- vi) the future levels of government shareholding, and ways in which the associated voting power will be used.

They strongly argued that a change in ownership is important, both in symbolic and actual terms. A number of observers (Newbery and Pollitt, 1997¹, MacKerron and Watson, 1996² among others) have suggested that many of the changes: improvements in service quality, investment and efficiency, produced by privatisation could have equally been achieved if the industries in question had remained in public hands, but had been subject to a more marked focussed approach. Beesley and Littlechild disagree with this viewpoint, and cite the discipline of the market as being the only possible means to achieve these ends, and a disbelief that a surrogate market focussed approach would achieve the desired results. In their view, nationalisation “delays inevitable adjustments to market forces” (Beesley and Littlechild, 1997, p.29).

The key concept, in their view, is competition. Competition will maximise consumer benefits, and at the same time limit monopoly power. Vital to the success of competition is the threat of market entry, to increase rivalry. Hence, the starting form and structure of any new industry is vital to achieve consumer benefits. This may involve a separation of the incumbent nationalised industry’s assets, and vertical de-integration. They

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Newbery and Pollitt’s view was based upon a social cost-benefit analysis of the restructuring and privatisation of the CEGB, which attributed much of the advances of the privatisation to efficiency improvements in generation, which did not require the full privatisation process. They were, however, cautious with respect to the validity of their findings, and the methods they employed to conduct the analysis (Newbery and Pollitt, 1997, p.296).

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MacKerron and Watson note the difficulty of undertaking such an intangible analysis, but also note that any such cost-benefit analysis may have to wait until a sufficient time has elapsed to allow for proper reflection (MacKerron and Watson, 1996, p.185).

acknowledge some concern that the dis-benefits resulting from de-integration: such as the loss of scale economies, would be greater than the benefits to consumers resulting from the change, but doubt that that would be the case in reality. They do, however, argue that obeying market forces is crucial to the success of any privatisation and that the “future growth of the industry should not be fixed by the pattern established at floatation. Companies should be allowed to expand or contract, diversify or specialise, as market forces dictate” (Beesley and Littlechild, 1997, p. 30), a situation that has not come to pass in the various UK privatisations. They also note that where there is a low expectation of competition developing outside of an industry, then the “starting structure should be designed to create effective competition”, and that “smaller rather than larger successor companies should be created, and allowed to merge thereafter”, (Beesley and Littlechild, 1997, p.30) a policy followed as will be seen, in electricity, water and rail privatisations, but not in telecommunications and gas. The question of structure, however, was to be influenced by the introduction of regulation to guard against the abuse of monopoly powers. The views of Beesley and Littlechild on regulation are considered in Section 4.6 of this chapter.

As for which industries deserved to be privatised, Beesley and Littlechild believed that priority should be given to those that would result in the greatest public benefit. They assumed that size of turnover correlated to potential for consumer benefit, and therefore believed that electricity, telecoms, gas, coal and steel were the five biggest nationalised industries and hence the industries that should be privatised first. In their view, relatively small industries would accrue relatively little benefit to consumers by privatisation and hence were not priorities. They also believed that those industries most in need of remedial action would also be most likely to benefit consumers following reform. Hence, at the time of writing (1983) industries like British Airways, British Steel, British Leyland, Rolls-Royce, British Shipbuilders and the bus companies offered little further scope for savings (Beesley and Littlechild, 1997, p. 33). However, these companies were also privatised and so we can assume that in these cases the political rationale was the key factor. As they themselves pointed out, many of the industries identified by them as candidates for privatisation had not previously been considered as such. An explanation for the changed attitude may be evident if we explore in greater depth the stated motives underlying the process.

4.1.3 Motivations for the Privatisation of ESI

As noted above, the extent to which the UK’s privatisation programme was planned, or evolved, is a matter of contention. Some have argued that the policy was an expedient solution to politically based ideological objectives (Cook and Kirkpatrick, 1995, p.3;

Beesley, 1997, p. 43), with Thomas arguing that “the privatisation of the ESI should not be seen as an isolated act of government policy. It was the culmination of a concerted policy by the Thatcher Governments over a period of about a decade to reduce the overall level of public ownership and to move decision-making for the productive sector of the public to private hands” (Thomas, 1996, p.40), and the overturning of what had been a fairly broad consensus about how public industries of this type should be managed (Cheshire, 1996, p.37).

However, others have noted the economic case for change. Among the latter group have been politicians such as John Moore (1983, 1985) who were closely associated with the policy at this time, and whose arguments are here summarised by Beesley and Littlechild (1997, p.28): “Privatisation will generate benefits for customers because privately owned companies have a greater incentive to produce goods and services in the quantity and the variety which consumers prefer. Companies which succeed in discovering and meeting consumer needs make profits and grow: the less successful wither and die....selling a nationalised industry substitutes market discipline for public influences”.

Even if economic motivations did underlie the rationale for the privatisation, other observers have identified political factors at play in the structure chosen. Thomas, for example, suggests that the speed with which the privatisation was undertaken and the fact that it was politically imperative that the companies created by the legislation would be stable determined to a large extent the structure of the reformed industry (Thomas, 1996, p. 71). The question of vertically separating distribution from supply, which when left vertically integrated was as apparently anti-competitive as leaving generation and transmission integrated, was overlooked, and was not addressed again until the Utilities Act 2000 (House of Commons, 2000). In 1989, however, to have undertaken business separation of this nature would have been to create a number of supply companies from the former Area Board staff who had little or no commercial experience. Safer, therefore, to initially launch twelve combined distribution and supply companies and minimise the chance of commercial failure (Thomas, 1996, p.72). The possibility of cross subsidy, therefore, was a policy issue at this early stage.

4.1.3.1 The Views of Politicians

The extent of the Conservative Party’s avowed intention to introduce a process of privatisation when it came to power in 1979 is contained in this brief paragraph from their 1979 election manifesto: the Conservative Party promised “to sell back to private ownership the recently nationalised aerospace and shipbuilding concerns, giving their employees the opportunity to purchase shares” and selling “shares in the National Freight

Corporation to the general public" (Craig, 1990, p.273). Clearly, not an extensive programme and bearing very little relation to the programme as it appeared in its final form, although the scope for privatisation in 1979 was limited by the prevailing economic climate, according to senior Conservatives (Thatcher, 1993, p.678). By the time of the 1983 election manifesto the Government's commitment to privatisation had been demonstrated by a number of less complex privatisations, and they felt able to identify the following promise: to "seek other means of increasing competition in, and attracting private capital into, the gas and electricity industries" (Craig, 1990, p.327). This policy, of identifying and pursuing the easier targets first runs directly counter to the economic analysis presented above. Beesley and Littlechild identified targets such as Associated British Ports, Amersham International *et cetera* as having little potential for public benefit and hence not prime targets for privatisation. This suggests that in 1979-1983, the motivations were primarily political, and that latterly, therefore, the economic motivations became more openly identified as the political targets were accomplished. Arguably, the extent of the political victory can be adduced by the acceptance of the economic policies. The two most telling contributions to this debate probably come from Margaret Thatcher and John Redwood, and the views of these politicians are reported here, along with the views of other senior Conservatives associated with the privatisation programme, John Moore and Cecil Parkinson.

4.1.3.1.1 Margaret Thatcher

Margaret Thatcher was Prime Minister of the UK from 1979 to 1991, and is inevitably closely associated with the privatisation process for which she was a chief advocate. It has already been noted that privatisation was not explicitly mentioned in the Conservative Party manifesto of 1979, so it is perhaps instructive to consider her own thoughts on the process, as revealed by her recently published memoirs. In her first term in office, Thatcher refers to privatisation as a possible solution to problems with the Public Sector Borrowing Requirement (PSBR)³, but one which would require lengthy legislation, with the exception of selling the Government's remaining shares in British Petroleum (Thatcher, 1993, p.49). Clearly, and initially at least, privatisation was viewed as a fiscal tool to be used for political expediency. The first term saw the introduction of the bill to privatise British Telecommunications, but this was side-lined in the run up to the 1983 election.

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Specifically, how to remove public services with their huge demands for subsidy from the PSBR. This has been identified by Bishop and Kay as a principal concern especially during the privatisation of British Telecommunications (Bishop and Kay, 1992, p.197).

The manifesto for 1983 contained a much clearer commitment to privatisation. Increasingly, the economic justification for privatisation was emphasised. Privatisation was identified as strengthening the 'supply side' of the economy: part of a wider process therefore, which included reductions in trade union power, improved training, wider home ownership, reductions in business regulation, and tax cuts. "Privatisation shifted the balance from the less efficient state to more efficient private business", Thatcher notes, identifying the process as a pillar upon which the Government's economic policy rested (Thatcher, 1993, p.672). She acknowledges that privatisation rose in significance as a policy during the period of Conservative government⁴. Therefore, there are elements of both political and economic motivations behind the programme.

The multi-purpose nature of the concept, as both economic and political tool, is later clarified, although its importance as a political tool is clear as this passage shows: "Privatisation, no less than the tax structure, was fundamental to improving Britain's economic performance. But for me it was also far more than that: it was one of the central means of reversing the corrosive and corrupting effects of socialism. Ownership by the state is just that - ownership by an impersonal legal entity: it amounts to control by politicians and civil servants; and it is a misnomer to describe nationalisation.....as 'public ownership'. But through privatisation - particularly the kind of privatisation which leads to the widest possible share ownership by members of the public - the state's power is reduced and the power of the people enhanced.....privatisation is at the centre of any programme of reclaiming territory for freedom" (Thatcher, 1993, p.676).

This was, she believed, a "fundamental purpose of privatisation". In a telling passage, Thatcher suggests that this political concern overrode the economic, and managerial, imperative. Implicitly, the necessity of 'reclaiming freedom' overrode the debate about the appropriate form of the means of sale, competitive structures and regulatory frameworks chosen (Thatcher, 1993, p.676). Consequently, political expedience resulted in a situation where "in some cases if it was a choice between having the ideal circumstances for privatisation, which might take years to achieve, and going for a sale within a particular politically determined timescale, the second was the preferable option" (Thatcher, 1993, p.677).

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It is interesting to read in her memoirs that, in her analysis, the success of the privatisation is as much measurable by the number of people who partook in the share sale, as by the more intangible measure of performance improvement.

In particular, her recounting of the privatisation of British Gas shows the imperative given to achieving the privatisation at the expense of having to reform the structure at a later date (Thatcher, 1993, p.681-2). Having established this political motivation, Thatcher also notes that the economic arguments for privatisation are equally “overwhelming”. In her view, as with those of the economists noted earlier, the state can never replicate the rigour of the market, and provide the “spur” for business success.

In relation to the challenge posed by electricity, Thatcher is quite illuminating. She states that the challenge facing the third Conservative administration of this period was to privatise as much as possible of the industry while introducing the maximum amount of competition (Thatcher, 1993, p.682), and a promise to do so was included in the election manifesto of 1987. She notes that policy on the ESI changed after the removal of Peter Walker from the Department of Energy (DoE), who had favoured a British Gas style transfer to public hands, and his replacement by Cecil Parkinson, who developed the structure eventually applied, with some modification by John Wakeham. She also implicitly notes that the interpretation placed upon the nuclear issue later in this chapter was indeed correct. Therefore, the decision was taken to exclude the Country’s nuclear assets from the privatisation with the aim of avoiding adding a potentially huge liability, of decommissioning existing nuclear plant, to the privatisation, which would have wrecked its chance of success.

4.1.3.1.2 John Redwood

A further telling contribution to the question of motivation was made by John Redwood in 1980. In his book ‘Public Enterprise in Crisis: The Future of the Nationalised Industries’ (Redwood, 1980) he outlines a pro-market critique of nationalisation which would strongly influence the design of the privatisation process. Indeed when, in 1983, Redwood became head of the Prime Minister’s Policy Unit, he himself was in a position to shape the process delivered by the Government. His argument in favour of a market solution in the public utilities is based upon a belief that faith in nationalisation is misjudged, in two crucial senses.

Firstly, he argues, that the notion that withdrawing a profit motive from the provision of such services will improve efficiency is erroneous. Where the nationalisers assumption is that by removing a profit motive additional revenue will be retained and not wasted, the reality, he argues is that “inefficiencies could develop (*and by implication have developed*) in a non-profit oriented organisation which could more than outweigh the benefits of not charging a profit margin on the goods or services supplied” (Redwood, 1980, p. 2). Secondly, he argues that the assumption that a lack of competition would lead to a

reduction, or the elimination, of the sort of “extravagance and waste” associated by advocates of nationalisation with the commercial sectors need for advertisements, marketing and so on, was also incorrect. For evidence, Redwood cites the prices for the services provided which he argues were “on a rising trend of noticeable proportions relative to prices generally”, between the years 1960 and 1976 (Redwood, 1980, p.2).

The economic justification for this view point is put forward by Yarrow, who argues that as generation and supply are not naturally monopolistic, they are therefore open to competition and hence subject to the general economic case for competitive markets (Yarrow, 1995, p.63). Competition, he argues in support of Redwood, can be expected to deliver higher outputs and lower profit margins than would be evident in a monopoly, and since neither activity was by its nature monopolistic, it is to be assumed that no large scale compensatory economies of scale exist to support monopolistic provision. He argues that the expectation would be that competition would lead inevitably to a lower cost base (Yarrow, 1995, p.64).

In a telling passage, Redwood notes that “exciting growth industries like air transport, telecommunications, power generation and supply, gas, coal and most other forms of surface transportation” were all at the time under performing, and by direct implication suitable for privatisation. Of course during the period 1979 - 1997 all of these industries were privatised, or liberalised. It is interesting to note that in the conclusion to the book, Redwood doubts the potential for competition in these industries, at least initially. He argues that “the solution to the monopoly question must ultimately lie in fostering competition”, the “perfect solution”. However, he notes, “in the short and medium term, it is unrealistic to suppose that the monopolies can be effectively challenged by competitive forces even if the regulatory and statutory framework were altered to allow competition to develop. Nor is it realistic to suppose that the nation’s economy would necessarily benefit or withstand a major change in state monopoly undertaken too hastily and without sufficient political agreement across the spectrum of debate” (Redwood, 1980, p. 199). Other solutions need therefore to be adopted, he argued.

4.1.3.1.3 Moore and Parkinson

John Moore echoed the views of both Thatcher and Redwood, and he constructed, through a series of keynote speeches (1983, 1985) a defence of privatisation which was at the same time an attack upon the ‘evils’ of nationalisation. He argued that privatisation was “justified on economic criteria as well as making sense in political terms” (Moore, 1983, p.78), in defence of criticisms aimed at the Conservatives accusing them of short-termism. He outlines a critique of publicly provided services pointing to poor

performance - with high prices having an effect upon national competitiveness (1983, p.81), and low customer satisfaction (1983, p.82). These failings he attributes to the lack of market rigour, and a lack of competition which is an efficient mechanism which “ensures that goods and services preferred by the consumer are delivered at the lowest economic cost” (1983, p.93). It is a responsive mechanism, that does not require political interference.

He enumerates three principal benefits of privatisation (1985, p.95). These are that privatisation:

- ▶ increases productive efficiency, through shareholder pressure and the operation of competitive processes;
- ▶ increases a wider distribution of share ownership, which further encourages efficiency and price restraint; and
- ▶ increases each industries’ potential to raise finance on international capital markets leading to improved services.

In short, the disciplines of the market produces efficacious benefits, and few if any disbenefits.

These were views also echoed by Cecil Parkinson, who was the Secretary of State at the Department of Trade and Industry when the Electricity Act was first brought before Parliament. His motivations were equally ranged between a market ideology, a desire to reduce the role played by government, and a desire to destroy socialism. “We set out quite consciously when we were elected”, he stated in 1988, “to cut back the role of the public sector, to take ownership away from the state and spread it as widely as possible among the public” (Travers, 1988, p.53). Central planning, he argued was a “recipe for mediocrity and low living standards” (Travers, 1988, p.54). Introducing competition to electricity, he further argued, was a ‘once-in-a-lifetime’ opportunity to overcome the failings of a misguided faith in central planning.

4.1.3.2 Summary

The solution to this question of what motivated the privatisation must inevitably be that both political and economic objectives played a part in the process, and that inevitably there will be differing opinions as to the impact the various factors had upon the process. Generally, eleven factors have been identified, each of which was either political, economic or managerial in nature, and the importance of which varied over the life of the privatisation programme (Thomas, 1996, p. 42). These were:

- a) that the operating systems of each industry under public ownership were piece meal and hence ineffective, leading to inefficiency;

- b) that there had been a lack of clear objectives within each industry, aside from a general aim of meeting a public good, and a lack of managerial authority inhibiting innovation and constraining effectiveness;
- c) a general public antipathy towards publicly managed institutions;
- d) the view that state ownership could in no sense replicate or replace the rigours of the market place leading to industries which were wasteful, ineffective and weak, or within which there is no sound business case;
- e) that service quality may be lower than in a privately owned, but publically regulated environment;
- f) a desire to reduce the burden of subsidy from central government and the tax payer, thus enabling politically and ideologically motivated reductions in income taxes;
- g) a desire to reduce the monitoring activity of central government, thus reducing administrative costs;
- h) a political objective of reducing the power of public sector trade unions;
- i) another political objective, of spreading more widely share ownership and so creating a share owning society (Thomas, 1996, p.42);
- j) the political and economic objectives of defending the UK nuclear industry; and
- k) to minimise cross subsidy, which was perceived to encourage inefficiency

Clearly, the range of the potential motivations for privatisation was wide, providing politicians with considerable strength in pushing each policy through, and enhancing the popularity of the policy among the voting public. It also makes the process an ambiguous one, as, as Thomas notes "it is difficult to estimate the precise extent to which privatisation was adopted to serve interests other than the explicit one of reducing public ownership, but a number of other policy objectives were clearly well served by privatisation" (Thomas, 1996, p.42).

Thomas continues by noting that "some of the secondary objectives of the earlier privatisation programme were lost in this new phase (between 1991 and 1995): there was little revenue to the Treasury, no profits to the general public from share flotations and little opportunity to expand share-ownership; but the power of large trades unions was further eroded by the transfer of people from employment by the state to small, private-sector organisations. The ideology remained intact" (Thomas, 1996, p.46). Clearly, therefore, privatisation was an approach that solved many of the obstacles that faced the Government between 1979 and 1997. The fact that the policy provided such an advantageous means by which they could be addressed perhaps would serve to indicate how each of the problems privatisation solved were irrevocably interlinked, indicating the

perceived existence of a fundamental 'blight' upon the UK at that time.

4.1.4 The Events of the Privatisation

The Conservative Party's intention to privatise electricity was a key aspect of their 1987 election winning manifesto. This privatisation, however, was intended to be markedly different to those that had gone before. As has already been stated, the principal factor guiding the privatisation of electricity was that the 'mistakes' of BT and BG should not be repeated (Holmes, 1992, p.15). Hence, there would be no 'BE', and the industry was to be wholly restructured. However, this decision, it is argued, overlooked the complexity of the electricity system - the fact that electricity is not a commodity industry like others, and creates severe difficulties if it is treated as such. As Holmes notes, therefore, "the forces of competition and the free market were....brought to bear on the market to which they were least relevant" (Holmes, 1992, p.16). He suggests that there was no underlying logic and no systematic planning underpinning the development of the ESI as a competitive industry.

The process of developing a model for the privatisation was characterised by considerable hostility between the Central Electricity Generating Board (CEGB) and the Government. In the end, it has been suggested (Holmes, 1992, p.21) the solution to the structure adopted by the Electricity Act of 1989 was the result of an agreement between the Government and the twelve Area Boards aimed at emasculating the CEGB, which as was observed earlier, had been the dominant player in the industry. This was achieved by proposing that the new structure took away control of the transmission system from the CEGB, so removing the principal means by which it achieved its centrality within the industry.

Having decided upon an approach which removed the objections of the CEGB from the equation, the principal practical hurdle during the process was the issue of nuclear power. The original plan to privatise the whole of the UK's nuclear generating capacity was gradually altered. The initial plan had seen two national generating companies established, one managing 70% of the generating capacity in the UK (including all of the nuclear capacity) and one managing 30%. The rationale behind this approach was to create a company that "would be large enough to absorb the risks of nuclear power", in terms of both operating and decommissioning costs (Green and Newbery, 1997b). The objective was to make the industry an attractive and viable investment proposition. However, this plan began to unravel as first the aging Magnox power stations were removed from the privatisation, in the Autumn of 1989, then in the early Winter the remaining Advanced Gas-cooled Reactor's (AGR) and one Pressurised Water-cooled Reactor (PWR) were

separated from the privatisation plans altogether and placed under the control of two nuclear generating companies: Nuclear Power and Scottish Nuclear. The principal problem was the widely held view that despite the efforts to make a National Power with nuclear capability an attractive investment, all the evidence suggested that the investment community was not ready for such potentially risky offer. The need to appease investors, and ensure that the sale of the generators produced the appropriate public and fiscal success therefore prompted a compromise within the crucial generation privatisation. Many commentators have seen this compromise as severely undermining the introduction of effective competition into generation, leading to extensive and continuing remedial action upon the part of the Regulator.

Supply competition policy also brought about a compromise. The gradual introduction of competition to the industry was a decision taken late in the process; in late 1989 according to some observers (Green and Newbery, 1997b, p.78). The justification for the decision is to be found in many issues, but principally the industry did not have the technology necessary to introduce effective competitive at a domestic level until late in the 1990's. Initial hopes were therefore scaled down. The question of competition is explored in more depth in Section 4.5.

Despite these last minute problems, the transfer of the ESI to private hands occurred on time, on vesting day, 31st March 1990. According to senior politicians of the time, the privatisation proceeded "with great success, to the benefits of customers, shareholders and the Exchequer" (Thatcher, 1993, p.685). The events of the run up to privatisation are addressed in some detail in Margaret Thatcher's memoirs (Thatcher, 1993, 680-685), which correspond very closely to the critical analysis presented by Holmes (1992, p.19-32), although Thatcher's views inevitably cast the privatisation in a more positive light. Other authors who present a description of events in this period include Armstrong *et al*, 1994; Thomas, 1996; and Green and Newbery, 1997b among many.

4.2 Structure of the Electricity Industry

The ESI was created after the Second World War as part of the wave of nationalisation's undertaken by the Labour administration of Attlee (Holmes, 1992, p.7). The final nationalisation, accomplished in 1948, was the culmination of a process which had witnessed more and more of the UK electricity supply system falling under public control, with the result that the several hundred local electricity suppliers were brought together into a unified whole. The industry's structure at this time was functional, and decision making power was not evenly distributed throughout the system. The ESI was effectively

divided in half, with the higher voltage Generation and Transmission activities on one side, and the lower voltage Distribution and Supply activities on the other. Generation and Transmission were undertaken by the CEGB, and Distribution and Supply by twelve Area Boards covering the whole of England and Wales. The situations in Scotland and Northern Ireland were different. For a more detailed analysis of the ESI under nationalisation, readers are referred to works by Vickers and Yarrow (1988), and Green and Newbery (1993), while Middlemass (1993) presents an analysis of the development of the industry from nationalisation to privatisation from the perspective of one of the Area Board/RECs.

The relationship between the CEGB and the Area Boards was often problematic, due to a disparity of power in favour of the CEGB (Holmes, 1992, p.8). This disparity was due to the CEGB's control of generation assets, and its obligation to ensure a continuation of supply to all electricity customers in the UK. The CEGB's statutory role was to "develop and maintain an efficient, co-ordinated and economical system of supply of electricity in bulk for all of England and Wales, and for that purpose: (a) to generate or acquire supplies of electricity; and (b) to provide bulk supplies of electricity for the Area Boards for distribution by those boards", as laid down by the Electricity Acts of 1947 and 1957 (Yarrow, 1986, p.192). The body also had certain budgetary and financial performance responsibilities imposed upon it under the later act of 1978 (Yarrow, 1986, p.192).

The CEGB and the Area Boards were formally separate statutory bodies, but given that there was considerable 'informal' vertical integration within the industry, and given its financial and performance related responsibilities, the CEGB was able to strongly influence the Area Boards (Yarrow, 1986, p.191). The resulting structure was often portrayed as inefficient, unreconstructed, and poorly managed. Newbery and Pollitt describe the ESI during its nationalised period as follows. The ESI was, they suggest, "a classic example of a cost-of-service regulated public utility, with excessive capital costs, over-dependence on high-cost indigenous coal and nuclear power, a low rate of productivity growth, a low rate of return on assets, in turn reflecting the inefficient balancing of interests - the coal miners, the industry itself, domestic voting consumers, large industrial consumers, the Department of Energy, and the Treasury" (Newbery and Pollitt, 1997, p.275).

Yarrow suggests that, pre-privatisation, the Government's approach to the ESI was primarily influenced by the PSBR, and this was the impetus behind the requirement placed upon the industry to meet increasingly stringent financial constraints. As part of this process, there is a suggestion that the Government used above margin cost pricing in electricity supply, to raise revenue (Yarrow, 1986, p.196).

The publication of the White Paper in 1988 confirmed the structure that the industry would take upon privatisation: one that was vertically and horizontally de-integrated. As the then Secretary of State, Parkinson, announced upon publication of the bill, the industry was to be structured as follows: "I therefore propose to introduce legislation at the earliest opportunity to provide powers to restructure and privatise the industry. These powers will be used to reorganise the CEGB into three new companies. The first will be a new generating company, owning some 30% of the CEGB's existing capacity, all of it non-nuclear. The second will comprise the remainder of the CEGB's existing capacity, both fossil-fuelled and nuclear. The third will be a national grid company, whose ownership will be transferred to the twelve existing Area Boards. The Area Boards will in turn be converted into twelve distribution companies, preserving their strong regional identity" (Parkinson, quoted in Holmes, 1992, p.23). The structures of the old, and the new, ESI are shown at Figures 4.1 and 4.2, and are sourced from Armstrong *et al* (1994, p.294). As Green notes, whereas previous privatisations had seen companies sold which were "essentially continuations of the public corporations which performed the same functions under state ownership" (Green, 1991, p.245), the sale of electricity saw a fundamental restructuring.

Within the new structure, according to the planned legislation, the CEGB was to be split into three: two generating companies and a transmission company. The new companies created as a result of this process were:-

National Power plc	a conventional fossil fuel generator (called Big G during early negotiations for the establishment of the new industry) managing approximately 60% of the CEGB's non-nuclear capacity at privatisation. National Power was the intended home of the CEGB's nuclear capability prior to the late change of policy. The Company is headquartered at Swindon, in Wiltshire;
PowerGen plc	a conventional fossil fuel generator (known as Little G) managing approximately 40% of the CEGB's non-nuclear capacity at privatisation. The Company is headquartered at Coventry, West Midlands; and
National Grid Company	the transmission company, jointly owned at the time of privatisation by all of the RECs, it was intended to act as a common carrier and therefore to facilitate the introduction of competition. NGC manages the high voltage grid.

According to Yarrow, the new structure brought about by the act saw the abandonment of “the traditional model of horizontally and vertically integrated” public utilities, and ushered in an era of competition (Yarrow, 1995, p.62). Yarrow identifies both presumed positive and negative consequences from de-integrating the industry; the negatives resulting from the possibility of interdependences between generation and transmission facilities being overlooked or down played, while the positives are achieved by overcoming predictable anti-competitive circumstances within a vertically integrated

Figure 4.1: Old Structure of ESI in England and Wales

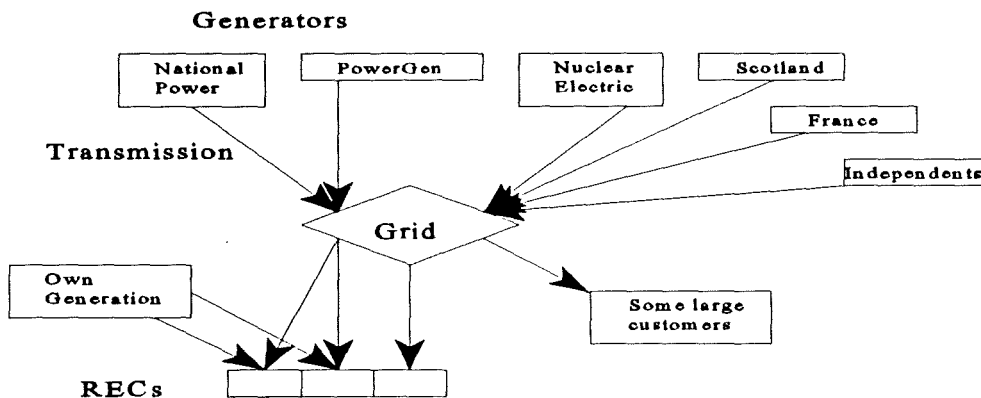
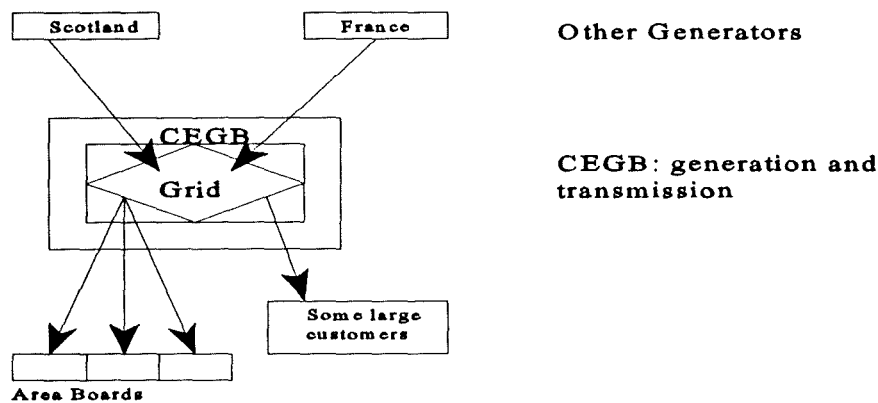


Figure 4.2: New Structure of ESI in England and Wales

(Source, Armstrong *et al*, 1994, p.295)

system through the exercise of excessive market power. This debate continues with the Regulator's intended development of business separation, which Thomas would identify as a completion of the process of de-integration. Business separation is intended to prevent RECs from exploiting the opportunity of information abuse and collusion between a REC's distribution and supply businesses (Thomas, 1996, p.69). Yarrow argues that the problems associated with such a situation are alleviated if there exists sufficient competition to overcome excessive market power (Yarrow, 1995, p. 66). The key objective is to achieve a balance within the structure which encourages competition but which overcomes any possible externalities. The Regulator has clearly taken the view that even with competition fully entrenched, the risks of anti-competitive behaviour are too great to allow integration between supply and distribution businesses to continue (James *et al*, 2001). As part of their incorporation, the RECs were required to keep separate accounts in both of their core businesses. Therefore, as Yarrow notes, while the functions of distribution and supply were vertically separate in terms of accounting, they were not separate in terms of ownership and operation (Yarrow, 1995, p.69).

The companies responsible for distribution and supply, the twelve Regional Electricity Companies (RECs) of England and Wales, were also created by the Act of 1989. These companies were direct descendants of the twelve Area Boards, and were issued with licences to both distribute and supply electricity. They also owned, but did not manage, the transmission company NGC. The twelve RECs were:

Eastern Electricity plc	Headquartered in Ipswich, Suffolk, and geographically the largest REC, Eastern served the largest number of customers; 2.94 million, at privatisation across East Anglia, Essex and North London. Its market was principally made up of domestic customers, and a growing commercial sector. It had limited in area industrial demand.
East Midlands Electricity plc (EME)	Headquartered in Nottingham, EME served 2.14 million customers in the East Midlands at privatisation. Its market was fairly evenly spread amongst all areas of activity, but commercial and business activity was thought to be on the increase at the time of privatisation
London Electricity plc	Geographically the smallest REC, it served 1.9 million customers in the capital at privatisation. Its market was primarily made up of domestic and commercial customers.
Manweb plc	Headquartered in Liverpool, and formerly known as the Merseyside and North Wales Electricity Board, Manweb served 1.3 million customers in the North West of England at privatisation. Its market was suffering from industrial decline, and a substantial population shift.
Northern Electricity plc	Headquartered in Newcastle-upon-Tyne, Northern served 1.39 million customers in the North East of England at privatisation. It also was suffering from industrial decline, and a substantial population shift.

Norweb plc	Headquartered In Manchester, and formerly known as the North West Electricity Board, Norweb served 2.1 million customers in the North West of England at privatisation. Like Manweb, and Northern it was thought to be suffering from industrial decline, and a substantial population shift.
Seeboard plc	Headquartered in Crawley, Sussex, and formerly known as the South Eastern Electricity Board, it served 1.91 million customers in the South East of England at privatisation. Seeboard's market was principally based upon domestic and commercial customers and included Gatwick Airport.
Southern Electricity plc	Headquartered in Maidenhead, Berkshire, it served 2.46 million customers in the South of England at privatisation, and was the largest REC by capitalisation at privatisation. Southern's market was principally based upon domestic and commercial customers and included the ports of Southampton and Portsmouth.
SWALEC plc	Headquartered in Cardiff, and formerly the South Wales Electricity Board, it served 0.92 million customers in South Wales at privatisation. Swalec's market was principally agricultural, and domestic although its population was widely spread. Swalec had suffered from a considerable loss of heavy industrial demand.
SWEB plc	Headquartered in Bristol, and formerly the South Western Electricity Board, it served 1.24 million customers in the South West of England at privatisation. SWEB's demand was again principally agricultural, and domestic although its population was widely spread, with high infrastructure costs and considerable exposure to the weather.
Yorkshire Electricity plc	Headquartered in Leeds, it served 1.95 million customers in Yorkshire at privatisation. Yorkshire was also subject to industrial decline and population movement.

The White Paper had also included plans for the privatisation of the UK's nuclear power plants, which were intended to be passed on to National Power. However, these plans were adjusted late in 1989, and the act created two new companies: Nuclear Electric and Scottish Nuclear, which remained under public ownership. These companies were eventually amalgamated to form British Energy, and floated on the stock market in June 1996.

Nuclear Electric plc	a company managing almost all of the nuclear generating capacity in the UK, approximately 15% of the total generation capacity of the UK.
Scottish Nuclear plc	a much smaller company, based upon two Advanced Gas cooled Reactors (AGR's), based in Scotland.
British Energy plc	On 1 April 1996, Nuclear Electric and Scottish Nuclear merge to form British Energy plc, a single company managing all of the UK's 7 AGR and 1 PWR reactors.

Magnox Electric

The merger excluded the country's Magnox range of reactors, which had been built principally for experimental or military purposes. These were taken over and managed by British Nuclear Fuels, which operated 2 Magnox reactors of its own, to form Magnox Electric, ownership of which was to remain in public hands. The company has an operational capacity of 3000MW.

Within the other companies created at privatisation: ScottishPower, Scottish Hydro and Northern Ireland Electricity, little of the experimentation undertaken in England and Wales was repeated and the companies entered the new era in forms very similar to those they existed in prior to the privatisation. In the case of the two Scottish companies, this means that they were fully integrated companies involved in all aspects of energy generation, distribution and supply.

4.2.1 Differentiating Market Models

The argument that the ESI and other regulated environments, are in some senses different from the more traditional market models devised by economists needs to be explored. In order to proceed with this discussion, it is necessary to understand alternate market models which may be commonly observable, and to understand where an industry like the ESI, or any other recently privatised and regulated industry, stands in relation to these models. Table 4.1 provides a comparison of four traditional market models, drawn from the work of Thompson (1993). These models describe the most common market formulations, and their principal characteristics. The configurations range from the largely theoretical model of pure competition: where price elasticity is very limited and product substitution is almost total, to pure monopoly, where only one supplier exists to provide a product, limiting consumer choice, barring industry entry, and increasing the potential for pure elasticity. It is necessary to ascertain whether the ESI market model is exhibited in Thompson's table above.

Initial analysis suggests that the answer appears to be no, at least at the time of writing. It is clear that the ESI while a SOE was a pure monopoly, and was identified in many quarters as a reactor: an industry without a strategy, leading to the decision to pursue privatisation⁵. However, privatisation and the managed introduction of competition means

5

The view that the ESI was under performing and inefficient is not universal. Holmes (1992) argues that the Government did not set out to resolve perceived abuses or inefficiencies, because what abuses there were not identified as being serious enough to justify the action that was taken. Nor, Holmes argues, was

Table 4.1: Structural Characteristics of Four Market Models

Market Model	Number of firms	Type of product	Control over price By supplier	Entry conditions	Non-price Competition
Pure competition	Large	Standardized; identical Or almost identical	None	Free	None
Monopolistic competition	Large	Differentiated	Some	Relatively easy	Yes
Oligopoly	Few or a few dominant	Standardized or differentiated	Limited by mutual interdependence; Considerable if Collusion takes place	Difficult	Yes
Pure monopoly	One	Unique	Considerable	Blocked	Yes

Source: Thompson, 1993, p.128

there particular public antipathy towards the ESI, as opposed to the considerable antipathy towards BT (1992, p.16). The decision was wholly influenced by ideology.

Table 4.2: Structural Characteristics of ESI Composite Industries

Market Model	Number of firms	Type of product	Control over price By supplier	Entry conditions	Non-price Competition
Generation					
1994	Few, subject to licence from Regulator	Standardised	Some, but limited by Regulator managed Pool mechanism	Difficult, subject to licence from Regulator	None
1999	Few, subject to licence from Regulator	Standardised	Some, but limited by Regulator managed Pool mechanism	Difficult, subject to licence from Regulator	None
Transmission					
1994/1999	One	Standardised	Regulated	Blocked	No
Distribution					
1994/1999	Twelve	Standardised	Some, depending largely on Regulator and management of cost	Blocked	No
Supply					
1994	Twelve, plus generators	Standardised	Some, depending largely on Regulator and management of cost	Blocked	Potentially
1999	Many and increasing	Increasingly differentiated	Some, depending largely on Regulator and management of cost	Open, subject to Regulator	Yes licence from

Table 4.3: Characteristics of a Regulated Oligopoly

Market Model	Number of firms	Type of product	Control over price By supplier	Entry conditions	Non-price Competition
Regulated Oligopoly	Few (relatively)	Standard (relatively)	Limited, but greater and significant control over cost of sales	Difficult, due to presence of Regulator	Of growing significance and potential

Source: Ghobadian *et al*, 1998, p.S77

it is no longer a classical monopoly industry.

As this chapter shows, the ESI is as yet unable to fit with either of the other market models: of monopolistic competition or oligopoly. This is principally due to the action of the Regulator in the establishment of prices, and effective blocking of new entry to the market⁶. As with any discussion of the ESI it is necessary to apply conditions to this statement. Firstly, the ESI is now a variety of industries. Secondly, the extent of regulation and competition evident in each of the industries is varied, and subject to change over time.

To approach this issue, it is necessary to divide the ESI up into its component industries, and appraise each using the same codifying variables as Thompson. In each industry, two situations are identified; before and after 1994. This is presented in Table 4.2. As the focus of the project is the strategy formulation of Distribution and Supply companies (the RECs), it is these upon which we will concentrate. It is clear that the market models of both Distribution and Supply companies are unlike any perceived by Thompson. Distribution is a monopoly business, and will remain so, but the actions of the Regulator in the control of pricing prevents Distribution companies from corresponding directly to the pure monopoly model. In the case of supply, there is certainly the potential for the development of competition, and hence alignment with models in Table 4.2, but again the presence of the Regulator mitigates against such an alignment. As such, this research project proposes a new market model, to join those already presented - the Regulated Oligopoly, as presented at Table 4.3.

The products of the ESI, at least in terms of the core products, are largely standardised; they are the distribution of electrical current from the Grid, and its retailing to the consumer. As the industry develops, again in response to competition in the Supply field, we may observe changes in the conception of what constitutes the RECs core businesses. RECs may choose to focus primarily upon their distribution activities, or place a greater emphasis upon their generation projects while gradually de-emphasising Supply as profit margins are eroded by competition.

At present entrance to the market, through the provision of second-tier supply contracts, is limited by the Regulator (OFFER, 1996). However, companies can enter the market if they can meet stringent entry stipulations. This is again an area where it may be possible

6

See Section 4.4 of this chapter for an assessment of the operation of the Regulator.

to observe developments in future years. Non-price competition is another. Developments in the United States suggest that non-price competition, or differentiation, may be possible with electricity branded like any other product (Economist, 1997, Nutley, 1995), and advertised as such. There may also be considerable potential for differentiation through the bundling of different products, and through the exploitation of unique selling points, like environmental awareness.

In summary, therefore, and given the factors described above, it is argued that the ESI is unlike any market types described by Thompson. The closest that the industry comes to a match is perhaps with the concept of oligopoly, although the actions of the Regulator, as a surrogate customer, takes away direct influence over price, and hence prevents a closer match.

4.3 Importance of Competition

It is a widely held view that what distinguished electricity from previous privatisations was the Government's decision to attempt to "engineer privatisation rather than simply waiting for it to emerge by some natural process" (Thomas, 1996, p. 67). This was deemed necessary as a consequence of consumer disquiet at previous privatisations, particularly in telecoms and gas, that had seen public monopolies transferred into the private sector. Thomas argues that "the benefit to consumers of being able to shop around for the cheapest deal and to withdraw their custom if they were dissatisfied with the service they received was therefore an important element in selling the electricity privatisation plans to the public" (Thomas, 1996, p.87).

At the beginning of the privatisation process, however, the extent to which competition was to be encouraged in the ESI was relatively narrow. The White paper intended that competition would exist in only two areas of the industry: generation and in the supply of very large customers, and for no one else. However in 1989, at almost the last minute, it was decided to extend competition to all supply customers; including domestic customers, over a rolling ten year timetable (Green and Newbery, 1997a, p. 28). A detailed consideration of the impact and importance of competition in generation is beyond the remit of this research project, which focusses primarily upon the RECs. In addition, the subject of competition in generation has received extensive analysis by other authors, and the reader is directed to works by Yarrow (1995), Green (1996), Thomas (1996), and Green and Newbery (1997a, 1997b) among many others. The subject of the pool mechanism used to facilitate competition in generation has also received extensive analysis, and again the reader is directed to works by Green (1991), Helm and Powell

(1992), Holmes (1992, p. 65-72), Newbery (1995), von der Fehr and Harbord (1993). Recent developments which have seen the introduction of the New Electricity Trading Arrangements (NETA) are interesting in the light of comments raised early in the process by authors such as Yarrow (1995). Yarrow noted that competition in generation was possible, but that its complexity may encourage a tendency towards collusion, rather than to vigorous competition (Yarrow, 1995, p.64), an implicit criticism of the generating companies that the NETA confirms and seeks to overcome.

As already noted, competition in supply was intended to be introduced over a ten year period. With effect from Vesting Day (the 1st of March 1990), the largest 5000 consumers, those with maximum demands in excess of 1 MW, would be allowed to choose their suppliers. These 5000 large companies were estimated to consume around 30% of the UK's electricity (Green and Newbery, 1997, p. 28). A second tranche of consumers, those with demands in excess of 100kW, would be allowed to choose their supplier from April 1994. This second group, of 45,000 medium sized business and commercial customers, represented a further 20% of the UK's electricity demand. The final group, of all domestic and small commercial customers consuming less than 100kW, were due to be given the choice of supplier from April 1998.

This competition in supply produced a change in licensing arrangements with the Regulator. Customers still buying from their host REC were called first-tier customers. Initially, companies wishing to supply customers out of area, needed to apply for a second tier licence. Second tier customers then needed to instal a special meter to record their half-hourly consumption to facilitate the billing and payment process, as second tier supply involved alterations to the traditional payment routes for use of the networks for high voltage transmission (operated by NGC) and low voltage distribution (operated by the local REC).

The effect of the introduction of competition has been a steady decline in the sales-volumes of the RECs, as first the generators, then independent second-tier suppliers, usually large industrial companies (who purchase directly from the pool), and then companies like British Gas which have entered the industry as the gas and electricity markets have converged, have taken market share. Initially, the generators were limited to a maximum of 15% of the sales volume in each area, but this limit has been gradually lifted and eventually removed.

4.3.1 Impact of Cross-Subsidy and Business Separation

Helm and Jenkinson attribute the existence of cross subsidy in many of the privatised

utilities to the maintenance of horizontal and vertical integration (Helm and Jenkinson, 1997, p.6), especially in the case of BT and BG, but also implicitly in the vertically integrated distribution and supply activities of the RECs. In the main, they imply, the existence of such cross subsidy is a product of the haste with which many of the privatisations occurred. Such cross subsidy, it is argued, would inhibit the potential for new entrants into the industry, by providing the incumbent with the opportunity to cross subsidize the potentially loss making unregulated part of their business with profits generated by the monopoly part of its business. In an associated concern, vertically integrated companies may be suspected of colluding, or providing preferential treatment to their sister organisations, at the expense of competition and the opportunity of a level playing field for new entrants.

This concern; and in many cases it is the impression that is important as no evidence exists that this sort of behaviour is occurring, is thought to act as a deterrent to new entrants (Helm and Jenkinson, 1997, p.6). This led, in the gas industry, to the creation of TransCo as a separate company from the rest of British Gas, and essentially, it is this concern that is motivating the Regulator and the Government in the provisions for business separation in electricity in the new Utilities Bill (HOC, 2000).

Within the new Bill a new authority, the Gas and Electricity Markets Authority (GEMA), will be established to regulate both the electricity and the gas industries, and to replace the existing regulatory provisions, currently OfGEM but formerly OFFER and OFGAS. This new authority will then take on the responsibility for the issuing of licences. In the original legislation, the Regulator had the authority to issue three different licences, while under the new legislation the number of licence types is increased to four, as shown in Table 4.4. As can be seen there is now a separate licence for distribution and supply, as opposed to the formerly combined licence. This change is necessary to facilitate business separation.

In order to differentiate the two formerly joined business activities, the following definitions were provided by the Utilities Bill (2000):

- | | |
|--------------|---|
| Distribution | ““distribute”, in relation to electricity, means distribute by means of a distribution system, this it to say, a system which consists (wholly or mainly) of low voltage lines and electrical plant and is used for conveying electricity to any premises or to any other distribution system”; and |
| Supply | ““supply”, in relation to electricity, means supply of electricity conveyed by a distribution system to premises other than premises occupied by a licence holder for the purpose of carrying on the activities which he is authorised by his licence to carry on”. |

Table 4.4: Electricity Industry Licences

The Electricity Act 1989	The Utilities Bill 2000
<p>Generation Licence: (a licence authorising a person to generate electricity for the purpose of giving a supply to any premises or enabling a supply to be so given)</p> <p>Transmission Licence: (a licence authorising a person to transmit electricity for the purpose of providing a supply)</p> <p>Supply Licence (combining Distribution and Supply activities): (a licence to supply electricity to any premises, with a distinction being made between 1st and 2nd tier supply licences)</p>	<p>Generation Licence: (a licence authorising a person to generate electricity for the purpose of giving a supply to any premises or enabling a supply to be so given)</p> <p>Transmission Licence: (a licence authorising a person to transmit electricity for the purpose of providing a supply in that person's authorised area)</p> <p>Distribution Licence: (a licence authorising a person to distribute electricity for the purpose of providing a supply)</p> <p>Supply Licence (a licence authorising a person to supply electricity to premises)</p>

Business separation is introduced into the framework in Clause 2 of Section 6 of the Bill which states that "the same person may not be the holder of both a distribution and a supply license" (HOC, 2000). The effect of this clause is to prevent the RECs, which when privatised in 1989 were allowed to hold both distribution and supply licences, from being able to do so in the future.

Business Separation was first explored in a consultation paper published by the OFFER, a precursor to the recently formed OfGEM, in May of 1999 (OFFER, 1999a). In launching its business separation proposals, OFFER justified its actions on the basis that a continuation of the initial and ongoing situation provides advantages to existing distribution companies, which may disadvantage both customers and the successful development of competition in supply. They also believed that the full convergence of gas and electricity markets may have been endangered without business separation. In building their case, OFFER outlined five principal concerns:-

- i) that PESs⁷ may operate their supply and distribution businesses to maximise benefits to the company in a way that disadvantages competing suppliers;
- ii) that the PES supply business may achieve access to information about competitors as a result of their use of the distribution service, which may not be available to other suppliers;
- iii) that the ownership of supply and distribution businesses gives PESs the

7

PES: Public Electricity Supplier, usually a REC but any holder of first tier supply licences.

- opportunity to cross-subsidise by allocating costs to the distribution business which more properly should be addressed by the supply business;
- iv) that the present integration of distribution and supply may act to deter customers from switching to a new supplier (OfGEM is worried that customers may be misled to believe that switching to a new supplier might lead to a poorer response from the distribution business); and
 - v) that the present metering and meter reading monopoly held by the distribution companies was likely to reduce incentives for innovation and efficiency gains (OFFER, 1999b).

Therefore, business separation was intended to overcome a long standing problem with the original legislation: how to be certain that distributors are being fair to all potential competitive suppliers, for which contingencies had apparently not been prepared. While the Director General of Electricity Supply (the Regulator) had been insistent that different business entities within a group report separately, have separate management structures, and indeed be physically located away from other companies within a group, it was still felt that further separation was necessary to ensure against anti-competitive actions. The five points identified above suggest that even the suspicion of collusion between, for example, the supply and distribution arms of the same company is to be considered anti-competitive, and only through legal separation can this suspicion be removed.

Helm and Jenkinson note, in relation to cross subsidy, that by introducing separation the Regulator would be able to ring-fence the financial data relating to the regulated activities of a company, separate from the various unregulated activities of the companies, and hence ensure no cross subsidy. They point out that the vast majority of RECs (and now all) have been taken over, and have diversified away from their core regulated business activities, hence increasing the potential for cross subsidy (Helm and Jenkinson, 1997, p.7). While separate accounting of each business is already required by the Regulator, separation would help resolve the "inevitable questions about abuses of transfer pricing and cross-subsidy" as well as providing the Regulator with valuable market information about the performance of all of the regulated companies (Helm and Jenkinson, 1997, p.5). They do, however, note that the companies themselves may have a concern about this process, and the impact that it might have upon their ability to operate in a demanding business environment. Furthermore, they note that in situations of market risk companies will inevitably seek to vertically integrate, and until solutions can be found to problems associated with market risk, this will continue to be the case. It is interesting that they speculate that the development of spot, forward and derivative markets in electricity may change this impulse (Helm and Jenkinson, 1997, p. 8), especially in the light of movements

in this direction by Eastern Group (which is featured in a case study in Chapter Nine of this thesis), and others.

4.4 Regulatory Environment

The regulation of both the electricity and gas industries has attracted considerable attention since privatisation. The purpose of this section is to provide a necessarily brief overview of the office of the Regulator, his roles and responsibilities, and the impact that regulation has had upon the companies of the ESI. Many authors have addressed the issue of regulation, and the reader is referred to the following selection of articles for a more exhaustive analysis of regulation in public utilities: Beesley (1997b); Beesley and Littlechild (1997); Bradley and Price (1988); Green and Newbery (1993); Helm (1994a, 1994b); Hood *et al* (1998); Jackson and Price (1994); Kay (1994b); Littlechild (1996); Mackerron and Boira-Segarra (1996); Mayer and Vickers (1996); McKinnon, (1995); Price (1994, 1997); Surrey (1996); Vickers (1997); Weyman-Jones (1995); and Yarrow (1986, 1994, 1995).

Regulation of the ESI was placed in the hands of the Director General of Electricity Supply (The Regulator), who was also head of the OFFER, the regulatory office created by the Electricity Act of 1989. This responsibility passed to the Director General of Energy Markets, head of the Office of Gas and Electricity Markets in June of 1999 when OFFER and its gas industry equivalent (OfGAS) merged, to take into account the increasing convergence of the two industries. Throughout the privatisation process, the philosophy underlying the concept of regulatory regimes in the UK has been based upon two key principles: the avoidance of private monopolies exploiting their position at the expense of the customer, and the promotion of competition in the non-monopoly parts of the industry. In general, the Regulator has the ability to impose price caps upon the companies under his jurisdiction in their monopoly businesses, and also in those activities which are in transition to full competition.

4.4.1 Role and Responsibility of the Regulator

The Regulator is responsible for overseeing “a competitive industry operating in an efficient manner with full protection to customers against unreasonable behaviour by those companies within the structure which retain monopoly powers” (Electricity Association, 1992, p.2). The Regulator also has “powers to protect customers from unreasonable behaviour through anti-competitive practices”(Electricity Association, 1992, p.2). Formally, the Regulator and the Secretary of State have three functions under Section One of the Electricity Act, 1989:

- ▶ to ensure that all reasonable demands for electricity are satisfied;
- ▶ to ensure that all licence holders are financially and operationally capable of fulfilling the activities and obligations authorised by their licences; and
- ▶ to promote competition in the generation and supply of electricity.

In the light of these responsibilities, both Regulator and Secretary of State must address these functions in a manner which is seen to be best calculated to:

- ▶ protect the interests of electricity consumers supplied by licence holders in respect of charges and terms of conditions, continuity of supply and quality of supply services;
- ▶ promote efficiency and economy on the part of transmission or supply licence holders, and the efficient use of electricity supplied to consumers;
- ▶ promote research into, and the development and use of, new technologies by or on behalf of each type of licence holder;
- ▶ protect the public from dangers arising from the generation, transmission or supply of electricity; and
- ▶ secure the establishment and maintenance of machinery for promoting the health and safety of those employed in such activities.

Additionally, both are required to take into account the effect upon the physical environment of any operational activity conducted in these industries (Electricity Association, 1992). The functions that OFFER itself is required to perform include the following:

- ▶ the granting of licences to persons who wish to supply, distribute, transmit or generate electricity;
- ▶ the fixing and publishing of maximum charges for reselling electricity;
- ▶ the publishing of information and advice for the benefit of tariff customers;
- ▶ the establishment of standards of performance in customer services and energy efficiency which the RECs must achieve;
- ▶ the determination of customers' unresolved complaints about RECs; and
- ▶ a review function of developments within the ESI.

The review function has proved the most potent, and arguably most controversial tool that OFFER has as its disposal. In particular, this device was utilised by the Regulator following the Trafalgar House bid for Northern Electric (Burton, 1997, p.182).

4.4.2 Choice of Regulatory Regime

Generally, the choice of regulatory system falls between one of the following three

possibilities: "the first....is rate-of-return regulation, whereby the firm is permitted to earn at most a fair return on its capital investment. The other methods include a constraint based on a fair return over costs and one based on a fixed profit per unit of output" (Bailey, 1972, p.663). The system at use within the ESI is the final of these three alternatives, based upon regulation by control of the price of a unit of production. In such a regime, the Regulator "is responsible for enforcing the price controls which govern the price that each REC can charge its tariff customers" (OFFER, 1989): a price cap system, under which the regulator effectively only has control over the distribution element of the price charged in a liberalised market. This price cap system contrasts markedly with the system as operated in the United States, where regulation is by the imposition of a cap upon profits: a rate of return system. Branton has commented that, when determining how the UK system was to be regulated, the framers of the legislation were determined that the choice should involve *any* system, so long as it *was not* that used in the USA (Branton, 1994, p.28), which Beesley and Littlechild had identified as being fundamentally incompatible, indeed fundamentally at odds, with the objectives of the privatisation (Beesley and Littlechild, 1997, p.30).

The defects of a rate of return approach were identified by Beesley and Littlechild as being:-

- ▶ its inefficiency;
- ▶ that it encouraged a 'cost plus' mentality;
- ▶ it involved expensive enforcement procedures;
- ▶ the vulnerability of regulatory body to capture by the utilities⁸;
- ▶ the limitations it introduced upon competition; and
- ▶ the consequent restriction of new entrants.

In their minds, a rate of return approach was akin to nationalisation, and wholly inappropriate to a privatisation programme (Beesley and Littlechild, 1997, p. 30). The basis of the rate of return approach stems from the work of American economists Averch and Johnson (1962), whose work on "the behaviour of the firm under regulatory constraint" predicted that regulated firms will tend to overcapitalize in an environment that allows a certain degree of profitability which relates to its asset base, such as a regulated environment. The rate of return approach, therefore, limits the profitability of a company in such a situation. If a company can only earn up to a specified ceiling, it is argued, they

8

The notion of 'capture' relates to the inability of a regulator to pursue objectives that are not agreed with utilities. It implies that the utility has more power than the Regulator within their relationship.

will not see the economic value of overcapitalisation. This limitation upon the decision making of the firm prompted the view of UK economists that a rate-of-return approach was akin to nationalisation.

The preference for a price cap approach is based upon the view that such an approach encourages efficiency, that is to say it provides incentives for greater operational efficiency (Baldwin and Cave, 1999, p.237), and so supports a market driven approach. As explained above, a profit cap system restricts an utility's profits to a level that the regulator considers a 'fair' amount: effectively an upper ceiling. On the other hand a price cap system like that used in the UK places no ceiling upon earnings, and it is argued this "allows the utility to earn reasonable profits provided it performs efficiently (Anon, 1995c). The process operated within the electricity industry is reviewed by the Regulator on a five-yearly basis, and he will take a number of conditions into account before adjusting the price cap, one of which will be the economic performance of each of the companies covered by the cap. It is known by the description "RPI-X" formula, where 'RPI' is the Retail Price Index; the general measure of inflationary forces in the economy, and 'X' is the discretionary figure that the Regulator judges appropriate to vary and control the prices charged by the utility. The Regulator has used this formula to reduce the amount that RECs can levy from the regulated parts of their business. Beesley and Littlechild stated that this approach was intended only as a stop-gap measure to protect consumers until full competition was entrenched, whereupon regulation would wither away and be replaced by the ineluctable influence of the market. To date, however, this has not occurred and regulation of the RPI-X variety remains a feature of all of the UK's privatised utilities. This situation is possibly due to a second main benefit of the approach, identified by Baldwin and Cave as its administrative convenience (Baldwin and Cave, 1999, p.237). Although the preparation for a review is extensive, the adjudication of the outcome of a review is relatively straightforward, based as it is upon a simple formula.

The RPI-X formula inevitably has its critics. A significant criticism is that identified by Mayer and Vickers, who note the tendency of price-cap regulation to confer "unwarranted profits on the utilities", while providing an un-equitable return to consumers (Mayer and Vickers, 1996, p.1). It was the operation of a price-cap system that led to imposition the Windfall Tax on the utilities in 1997. The price cap approach also presents the Regulator with an arguably more demanding task, and hence can result in more invasive regulation, especially if price capping is carried out badly (Baldwin and Cave, 1999). Some of the US investors in the UK industry have certainly argued this point, citing unnecessary and overzealous participation on the part of the Regulator as an issue preventing them effectively operating their investments (Southern Company, US003, 1999).

4.4.3 Regulation in Practice

The frequency and supposed predictability of the Regulator's adjudications: *ie* the five-yearly review timetable, conditions the behaviour of the RECs. The system, it is argued, encourages costs to be taken out of the system early in this cycle, to maximise the opportunity for savings to be made, and hence profits to be achieved (Eastern Group, UK002, 1995). This has led observers such as Westlake and Beckett to comment that "electricity distribution has become a cost-cutting business, with consequent effects on staffing levels in particular" (Westlake and Beckett, 1995, p. 52). Companies can, at least at the start of the process, cut their costs severely and can therefore "make a fortune" (Anon, 1995d).

One interesting aspect of the question of regulation is that of its future. It was initially envisioned, with the privatisation of British Telecom in 1983 that the need for regulation would wither away (Littlechild, 1983), as the effects of competition took hold. However, it is increasingly the view that there will always be a need for regulation as, as Helm and Jenkinson among others have noted, "regulation has in fact increased as competition has developed" (Helm and Jenkinson, 1997, p. 10). Regulation for competition, they argue, has proved much more difficult than regulation of monopoly.

4.5 Key Events Since 1989

The following section presents a chronological list of the events that have shaped the ESI from before its privatisation to its current market situation (December 2000):

1983	Energy Act: First act to liberalise the provision of energy within the UK, with the removal of the legal monopoly in generation previously enjoyed by the CEBG. However, in practice this measure had no real effect upon the extent of competition within the ESI;
25 February 1988	White Paper: Privatising Electricity (Cm322) published: The White paper included within it all aspects of the later Act, except that it also contained proposals to privatise nuclear generation at the same time as conventional generation. This, in the end, did not occur;
2 March 1988	White Paper: Privatisation of the Scottish Electricity Industry (Cm327) published;
30 November 1988	The Electricity Bill, later The Electricity Act 1989, presented to Parliament: The provisions of the Bill, minus the attempt to privatise the nuclear generation capability of the CEBG, was fully implemented by 1991;
27 July 1989	Electricity Act 1989 receives Royal Assent;
9 November 1989	Nuclear power stations removed from privatisation;
31 March 1990	Vesting Day;

11 December 1990	Privatisation of RECs completed, and the RECs traded in the market;
12 March 1991	Privatisation of generating companies partially completed (60% of both National Power and PowerGen);
18 June 1991	Scottish Hydro-Electric and ScottishPower floated;
21 June 1993	Northern Ireland Electricity privatised;
1 April 1995	100kW market opens to competition
11 August 1994	First regulatory review
14 December 1994	Trafalgar House announces a hostile takeover bid for Northern Electric, despite existence of Golden Share preventing any one organization owning more than 15% of a REC. Bid lapses 10 March 1995;
6 March 1995	Second tranche of generator shares sold;
31 March 1995	Government's golden share in RECs expires;
6 July 1995	Extraordinary second regulatory review;
17 July 1995	Southern Company bids for SWEB, takeover complete 18 September 1995;
24 July 1995	ScottishPower bids for Manweb, takeover complete 12 October;
31 July 1995	Eastern Group announces agreed takeover by Hanson, subsequently completed successfully 18 September 1995;
8 September 1995	North West Water bids for Norweb, takeover complete 8 November 1995;
18 September 1995	PowerGen bids for Midlands Electricity, bid referred and blocked by government on 24 April 1996;
2 October 1995	National Power bids for Southern Electric, bid referred and blocked by government on 24 April 1996;
6 November 1995	CSW bids for Seeboard, takeover complete 11 January 1996;
4 December 1995	Welsh Water bids for SWALEC, takeover completed 29 January 1996;
11 December 1995	Regulator requires RECs to sell shares in National Grid Company;
21 March 1996	The combined Welsh Water/SWALEC renamed Hyder;
March 1996	The date by which National Power and PowerGen were required to divest 6000MW of coal fired generating plant;
31 March 1996	Nuclear Electric and Scottish Nuclear merge to form British Energy. Also formed on that day was Magnox Electric;
1 April 1996	The combined North West Water/Norweb renamed United Utilities;
1 April 1996	Phased liberalisation of gas markets begins;
29 April 1996	South West Gas trials commence
2 May 1996	The Government blocks the takeover of 2 RECs (Southern and Midlands) by 2 generators (National Power and PowerGen) (DTI, 1996b) and stated that it would continue to block such bids until "there is adequate competition in the generation and supply markets";
7 May 1996	Avon Energy bids for Midlands Electricity, takeover completed 7 June;
1 July 1996	Southern Co. Sells 25% of SWEB to PP&L;

15 July 1996	British Energy floated;
28 October 1996	CalEnergy bids for Northern Electric, takeover complete 24 December 1996;
13 November 1996	Dominion Resources bids for East Midlands Electricity, takeover complete by 13 January 1997;
18 December 1996	Entergy bids for London Electricity, takeover complete by 7 February 1997;
24 February 1997	Yorkshire Holdings bids for Yorkshire Electricity, takeover complete by 1 April 1997;
27 February 1997	The Energy Group demerged from Hanson;
13 June 1997	Pacificorp bids for Eastern Group. Bid referred to MMC and lapses 1 August 1997;
30 January 1998	Magnox Electric becomes wholly owned subsidiary of BNFL;
3 February 1998	Pacificorp launches new bid for Eastern Group;
2 March 1998	Texas Utilities also launches bid for Eastern Group;
18 June 1998	Southern Company sells further 16% share in SWEB to PP&L;
29 June 1998	Dominion Resources sell East Midlands Electricity to PowerGen, takeover complete 27 July 1998;
1 September 1998	Scottish Hydro and Southern Electric announce merger, to form Scottish and Southern Energy, merger complete 14 December 1998;
25 November 1998	Midlands announces sale of supply business to National Power, sale complete 30 June 1999;
31 December 1998	Entergy sells London Electricity to EdF, sale completed 30 September 1999;
1 January 1999	OfGEM formed;
11 June 1999	Southern/PPL to sell SWEB's supply business to EdF;
23 June 1999	Hyder to sell SWALEC's supply business to British Energy, takeover complete 17 February 2000;
6 July 1999	GPU buys CINergy's share in Avon Energy;
1 October 1999	SWEB changes name to Western Power Distribution;
9 November 1999	Eastern Group changes its name to TXU Europe Power;
15 December 1999	London and Eastern Announce intention to set up a joint venture to operate distribution networks. The new operator, 24seven, launches 3 April 2000;
20 January 2000	Utilities Bill introduced into HOC;
20 March 2000	Midlands Electricity changes name to GPU Power UK
28 July 2000	Utilities Act 2000 receives Royal assent
3 August 2000	TXU Europe takes over Norweb Energi
7 August 2000	British Energy sells SWALEC Supply to Scottish and Southern Energy
8 September 2000	Independent Energy collapses, to be bought by npower
15 September 2000	WPD successfully wins control of SWALEC Distribution

4.6 Conclusions

In concluding this chapter, two issues are addressed. The first of these, Section 4.6.1, is

a brief examination of the views of notable authors with respect to the question of 'was the privatisation worth it?'. It is not the intention of this report to question the validity of the exercise, nor its relative success. However, a brief exploration of the views of the most significant writers may be illuminating with respect to the central aims of objectives of this research. The second section, Section 4.6.2, summaries the remainder of the chapter and identifies the unique characteristics of the industry prior to the more in-depth analysis of the strategy processes of the companies formed by the privatisation.

4.6.1 Was it worth it?

Many commentators have assessed the progress and nature of change in the industry, and attempted to answer the question of whether the effort was worthwhile. Inevitably, the views of different analysts are mixed. Green and Newbery considered whether the structure arrived at was appropriate for its principal aims of improving efficiency and achieving competition. They conclude that it was, especially in relation to generation. They content that by resisting 'vertical integration' within the industry, regulators and legislators have aided the growth of competition in generation, the most significant influence upon maintaining a downward pressure on prices (Green and Newbery, 1997, p. 45). They are not persuaded by the argument that larger companies with merged activities, or national champions along the French model, would have benefited the country or met the aims of the legislation. The ongoing role for policy makers, they argue, is to avoid any concentration of generation through any future mergers (Green and Newbery, 1997, p. 45).

Yarrow describes the effects of privatisation in relation to the encouragement of competition, even at an early stage, as a resounding success (Yarrow, 1995, p.85), based upon the measure provided by new entry into the industry. The reason for this success, when compared for example to the attempted liberalisation of the energy industry in 1983, Yarrow firmly attributes to the presence and actions of the industry regulator (Yarrow, 1995, p. 86). He also notes that the UK experiment in electricity had gone much further, in 1992, than the EU had envisaged itself requiring by 1996, or even the current situation, as is still the case.

Holmes, writing relatively early in the project, takes the view that the privatisation was ill-managed, if not ill-conceived. The failure to undertake a preliminary study, he argues resulted in a flawed industry structure (Holmes, 1992, p.109). He argues that it was only a last minute political fix: when Parkinson was replaced by Wakeham as the senior minister in charge, that stopped the whole process from collapsing upon itself. Central to his criticisms is a view that the electricity industry is not a market-place, and would

never be so. The tenor of his argument holds that electricity systems of this kind are much better suited to public provision. The system that developed, with its enforced competition, does not serve the aims of the privatisation, in that it does not replace a flawed system with a working system. Rather, it replaces one flawed system with another flawed system. In his view, "the whole business of a competitive market is, in short, a facade" (Holmes, 1992, p.144), and the results of the privatisation are a long way from achieving their goals.

A variety of empirical assessments of the success of the privatisation have been undertaken, using a variety of analytical methods. One interesting assessment was conducted by the renowned economists Newbery and Pollitt, using a social cost-benefit analysis of the privatisation. Their findings suggest that while there has been a marked cost reduction of around 5% per annum, this saving has not been passed on to consumers. That is to say that it is the producers who have benefited from the process, and as such the privatisation has failed to meet one of its key criteria. They do note situations where reforms of the old system could have produced more socially advantageous results, but remain sceptical that all of the conditions necessary for this scenario to come about would have necessarily occurred (Newbery and Pollitt, 1997, p.296). They also note that as much as one quarter of the gains in efficiency resulting from the privatisation have not been appropriated by the consumers of energy or even shareholders in the companies, but have been repatriated by the French electricity company, EdF, which has been able to sell its electricity into the UK industry most effectively since privatisation.

Bishop and Kay also assessed the effects of privatisation upon efficiency (Bishop and Kay, 1992, p.200-202), although their study was focussed upon all of the population of privatised companies, and as it was reported in 1992, was unlikely to include the RECs. However, they concluded that in general, and after an uncertain start, the efficiency of the recently privatised companies has markedly improved (Bishop and Kay, 1992, p.202), supporting the findings of Newbery and Pollitt. They do note that privatisation was not necessarily the cause of organisational improvement, and further conclude that many of the changes achieved could conceivably have occurred under the organisation's previous ownership. They suggest that competition is more important than privatisation, and where there is any conflict between privatising an industry or introducing competition, then competition should take precedence. A review of the gas industry by Waddams Price and Weyman-Jones found evidence of higher productivity in the operations of British Gas since privatisation (1996). In contrast, the work of Martin and Parker (1997) found no consistent relationship between ownership and performance.

4.6.2 Unique Characteristics of the ESI

The principal characteristic of the ESI is the unique method of its privatisation. The ESI was the first public utility in the UK to experience 'ordered competition' (Burton, 1997): that is, it was the first UK public utility privatisation to proceed with a significant degree of attendant market liberalisation. Whereas BT and BG had been privatised as effective monopolies, the ESI was vertically and horizontally de-integrated and competitive markets, in generation and supply, set up. This chapter has also indicated that in most cases UK privatisations have occurred under time pressure, which has resulted in a greater virtue being placed upon the completion of each privatisation process than ensuring that the minutiae of the details were correct (Thatcher, 1993). Undoubtedly electricity, given the last minute compromises⁹ and incomplete regulatory framework¹⁰ falls into this category. Interviews conducted as a part of this research project, with the then industry regulator OFFER, confirmed that issues relating to the development of company strategy were not taken into consideration when the industry was in the process of being privatised¹¹.

Therefore, the companies of the ESI were faced with a set of issues that no previous company had faced during the UK privatisation process. The process of adaptation required not only that they assume responsibility for various functions usually performed by commercial enterprises: treasury, taxation, reporting and making profits for its new owners, but also adapting to competition *within* an environment that was and remains subject to regulation. As Chapter Two demonstrated (Snow and Hrebiniak, 1980) existing management models and techniques of management were not created to provide guidance for managers faced with these challenges. The impact upon each company's strategic processes of these new demands within an uncertain environment are addressed in Chapters Five to Eight.

9

Such as the removal of nuclear power from the initial proposal, and the late introduction of graduated competition in supply.

10

Necessitating the current introduction of business separation.

11

A quote to this end from Interview UK001 was presented in Section 1.0 of Chapter One.

5.0 Introduction

This chapter, and the three that follow it, begin the reporting of the preliminary stage of the research. The aim of this preliminary stage is to begin the process of addressing the first two objectives of the research, and to also begin the development and refinement of the tentative 'core' propositions, as discussed in Section 1.3, and Section 3.4.1. In order to ensure consistency the analysis presented in this chapter, and the two following it, adopt the same reporting and analytical frameworks.

Chapter's Five, Six and Seven present a series of discrete case studies which report data on the RECs over the period 1990-2000. Each case study features the following sections:

- ▶ key events in the company history between 1990-2000;
- ▶ an analysis of the company's managerial and organisational structures; and
- ▶ an assessment of the corporate and business strategies that each company has pursued, across the various industries in which it operates.

Evidence for this analysis is drawn from a variety of published sources, including the financial and academic literature, and from company publications, as discussed in Section 3.4.3.2. Each chapter then presents an analysis of the data presented, which also utilises a common framework. This framework divides the analysis into the first and second objectives of this research, where in relation to:

- ▶ Objective One, as discussed in Section 3.4.3.2.1, a form of content analysis has been utilised to collect and analyse data. In each case, therefore, a matrix showing the prevalence of each form of 'grand strategy' (Pearce and Robinson, 1994, and Section 2.5.4) for each of the different businesses of each REC is presented, and discussed. Alongside this, a second matrix showing the possible business strategies (Chrisman *et al*, 1988, and Section 2.5.5.4) is presented and discussed. This review of evidence collected in support of Objective One of the research is continued by the author's assessment and identification of possible viable strategy combinations, in terms of (i) corporate, (ii) business, and (iii) organisational level strategies; and
- ▶ Objective Two, as noted in Section 3.4.3.1, a framework of possible drivers of strategy has been developed based upon the prospective dominant views of strategy making in the firm, as described in Section 2.2.3. This framework is used to assess the evidence obtained in this preliminary stage to make general

comments as to the nature and influence of these various drivers of strategy¹.

The analysis of each of the cases in the sub-sample, is drawn together in a separate concluding section of this chapter, Section 5.5, and a similar analysis will be performed for each of the two subsequent chapters. Reference will also be made to a variety of other key managerial concepts, as identified in Section 2.6. The process will culminate in a review chapter, Chapter Eight, which draws all of the preceding analysis together, and suggests general conclusions in respect of Objectives One and Two, to be further tested in the following case study Chapters Nine to Eleven. Chapter Eight also seeks to develop the refined tentative propositions to be further tested in the case study chapters.

As described in Section 3.4.2, this sub-sample includes four of the RECs: Manweb (Section 5.1); Norweb (5.2); Northern Electric (5.3) and Yorkshire Electric (5.4). In characterising the companies of this sub-group, Holmes noted the following as being key similarities within the markets that each of these companies served:

- ▶ each area formerly contained the majority of heavy industrial demand within the UK: principally Mining (Northern and Yorkshire); Shipbuilding and Docks (Manweb and Northern); Steel (Yorkshire); Textiles (Norweb and Yorkshire); auto-manufacture (Manweb) and so on;
- ▶ that each of these industries was in terminal or relative decline;
- ▶ that each area was witnessing to some extent a population migration to more affluent parts of the country; but that
- ▶ in accommodating these changes there were bright spots of commercial activity seeing an increase in demand, and the stabilisation of population movements (Holmes, 1992, p.56).

Holmes therefore implies that the companies from this sub-sample would have faced a greater challenge than those in other sub-groups, as demand falls across their customer profile, and anticipated that this would affect the strategies chosen. However, at the time of writing, Holmes did not feel able to estimate how the companies of this sub-sample would respond, and whether that response would be uniform across each of the companies.

1

It should be noted that this analysis is tentative, and will be subject to further exploration during the field stage of the research. This is due to the difficulty of consistently identifying the impact of the various drivers of strategy across all of the businesses of all of the case study companies, using textual analysis. The author argues that understanding the impact of drivers of this kind is more appropriate in case studies following in-depth interviewing.

5.1 Manweb (the former Merseyside and North Wales Electricity Board)

Manweb is the REC for North Wales and Merseyside. The Company's operating franchise covered an area of 12,200 square kilometres and included Merseyside, North Wales and parts of Cheshire, Greater Manchester, Lancashire, Shropshire and Staffordshire. The customer composition of the area is varied, with large industrial and petro-chemical customers, and the Port of Liverpool accounting for much demand, while there was significant demand from North Welsh agricultural users. There was also significant domestic demand from the urban conurbation surrounding the city of Liverpool. However in recent times the area has been in relative decline, with its population decreasing due in part to economic instability. Manweb was from an early stage thought to be relatively vulnerable in two senses: firstly, to economic downturn; secondly to the aggressive attentions of other RECs hoping to win new custom in the recently liberalised 1MW sector of the market.

5.1.1 Key Events: 1990-2000

Manweb is perhaps the direct opposite of REC's such as Eastern Group (Section 7.2) and East Midlands Electricity (EME) (Section 6.1), in that it adopted the most consistent and narrowly focussed interpretation of what constituted its core business. This narrow focus was reflected in the briefest of all of the statements of future business intentions made by a REC at the time of its flotation (Anon, 1990). The Company acknowledged that distribution was the principal source of profitability and therefore intended to grow that business, while effectively managing its costs (Kleinwort Benson, 1990, p.326). What is very interesting about the Manweb approach is the way that the City was initially strongly in favour of a narrow focus, but that latterly, as other RECs proved the profit generation potential of 'non-core' activities, the City reduced its support for an approach of this nature.

Manweb announced very early on that it intended to take a long term perspective, and wait until the industry had settled down before making any major strategic decisions. This involved not moving into Closed Cycle Gas Turbine (CCGT) generation², and not taking part in any unrelated diversification with the exception of gas marketing, where the company shared the view of the other RECs that the separate gas and electricity industries were converging. Analysts were initially very complementary towards Manweb's stance. For example, in 1990 the Financial Times noted that "strategy is Manweb's strength: talk

²

The only REC not to do so.

around the board table is more typical of a US management consultancy than a REC. The decision not to invest in generation and its view on the possible restructuring of the electricity industry are evidence of its distinctive strategy” (Sychrava, 1990c).

Manweb adopted a concentrated growth strategy, focussed upon its distribution network. The Company had adopted a new organisational structure eighteen months prior to privatisation, which involved the creation of three distinct business divisions - distribution, supply, and appliance retailing and electrical contracting. Additionally, a corporate services business was also established to sell its expertise to the three business divisions: a form of internal network as described by Miles and Snow (1992). While this structure was to become common after privatisation few RECs instituted a similar change prior to the industry paradigm shift. In addition, Manweb had invested heavily in a new and highly effective communications network for the Company. The management of Manweb were highly regarded, and had shown a very early acknowledgement of the difficulty of making supply a profitable activity, especially in their market sector. As noted above, the area was heavily industrial, and therefore open to much competition for high energy users. Manweb’s reaction was not to undercut the prices offered by competitors but to offer an improved range of added value services in the hope that, for example, assistance to improve efficiency would prove more attractive than a simple price reduction. Should that not prove the case, the Company was not particularly concerned, as the margins in supply were so small. As Manweb’s Chairman noted “it’s probably more profitable taking a management fee than it ever was just selling electricity” (Sychrava, 1990c).

The Company therefore offered a low cost, differentiated service in supply aimed at providing high quality to customers, and a low cost service in the monopoly distribution network aimed at maximising operating profits. Such an approach would be identified as a segmented benefit focus approach, by Chrisman *et al* (1988, and Section 2.5.5.4).

During the early post privatisation years Manweb endeared itself to the City by:

- ▶ sticking to the knitting: the City felt that RECs should concentrate on distribution and ‘marked up’ Manweb as a result;
- ▶ focussing upon cost reduction: Manweb had a reputation as a company that had slimmed down earlier than other RECs hence reducing its cost base, and maximising the profitability of its distribution business;
- ▶ announcing a willingness to seek synergistic savings opportunities with other local utility providers, in particular Welsh Water;
- ▶ focussing upon customer service: large customers were offered demand management and energy efficiency advice while domestic customers enjoyed lower

- costs and higher service quality;
- ▶ being environmentally friendlier than other RECs: Manweb was the 'greenest' of the RECs (Sharpe, 1990), and its only involvement in generation came in renewable energy sources such as wind (Sychrava, 1992a), and clean coal (Smith, 1994l);
- ▶ acknowledging the potential of gas, and formed joint venture with Alliance (Buckley, 1992a);
- ▶ pulling out of retail (Smith, 1995b); and
- ▶ investing in upgrading existing infrastructure (Smith, 1993d).

Manweb also enjoyed considerable success in market development and by 1993 had won back 38 large local customers that it had formerly lost, while at the same time winning 18 new 'out of area' customers (Smith, 1993d). At this stage the Company was felt to be lean, effective and focussed upon a small number of core capabilities. Investor's trusted the Company's management team and as a result the City favoured Manweb. Its core business focus was unique within the industry, but over time increasingly less so, as companies that had diversified much more widely returned to a core focus.

The problems for Manweb in relation to relative performance in the eyes of City analysts was that when companies such as EME adopted a core business focus, that core business was seen to involve generation, as well as the traditional businesses of distribution and supply and the other new core business, gas. Manweb by comparison, having not ventured into generation was seen to be less adventurous, and hence holding Manweb stock became less attractive. This occurred for two reasons. Firstly, companies were seen to be making a success of related diversification into generation. Secondly, because the first price review undertaken by the Regulator showed that distribution was increasingly likely to come under greater pressure for price reductions, and hence be less profitable. Manweb, having based its entire strategy on distribution and risk aversion, suddenly appeared to have made the wrong decision after all.

It is interesting to note that the dilemma faced by Manweb highlights a consistent problem associated with corporate strategy making. A strategy which appears appropriate at a given time, in given conditions, can look less appropriate if those conditions change, and more so if the Company can not change with changing circumstance. Inactivity of this kind leads to the performance associated with the Reactor archetype, identified by Miles and Snow (1978). The first regulatory review in 1994 was without precedent, and hence strategies which had looked appropriate before the review, looked less appropriate afterwards. The reaction of the City reinforces this analysis, and exacerbates the apparent

deficiencies of what had been up until then a viable strategic position.

Manweb became one of the first company's to be targeted for a hostile takeover, and the first company to be targeted by another electricity sector company, when ScottishPower bid for it in July 1995. The hostile bid valued Manweb at only £1.1 billion (Wighton, 1995d) reflecting ScottishPower's view that Manweb was not a particularly viable option in terms of potential earnings growth, due to its decision to focus upon distribution. ScottishPower also claimed that Manweb had not achieved as much as could be expected from cost reduction, based upon comparisons with other RECs who had been shedding staff at a much higher rate. Manweb countered by claiming that they had a lower starting staff level due to the restructuring undertaken prior to privatisation, but in a defensive measure in August 1995 immediately announced job cuts which amounted to 17% of its staff total at March of that year.

Manweb's loss of the takeover battle cost its managers dear. All of the senior managers of the Company were replaced by managers from ScottishPower. The wide ranging job reduction started prior to the takeover, when up to 1000 employees lost their jobs, continued as ScottishPower sought to realise as many synergistic savings as possible from the acquisition. The operations of Manweb were moved to a smaller building in Chester with a further 350 job losses, principally in areas where there existed a duplication of ScottishPower functions (Wighton, 1995h).

Since the takeover, Manweb has become a route by which ScottishPower has sought entry into the English and Welsh market, and the Manweb brand has been subsumed into the ScottishPower brand everywhere except in the Manweb area. The Company still operates in the region pursuing the core activities of distributing electricity, and retailing ScottishPower electricity and gas under the Manweb brand. It's focus remains upon providing a high quality service. Evidence from OfGEM suggests that Manweb is one of the best performing companies across a range of measures. The Regulator's 1999 report on Distribution and Transmission Performance (OfGEM, 1999) reported that Manweb was:

- ▶ the second best performing REC in relation to the number of interruptions per 100 customers;
- ▶ in the upper quartile of companies in relation to low numbers of minutes lost per customer; and
- ▶ that in 1999 the Company reported their best performance over the 10 year period in relation to the number of faults per 100KM of network.

However, the comments were not all complementary, as Manweb received the fourth highest number of complaints per 10,000 customers, although this figure was actually below its 10 year average.

5.1.2 Structure of Manweb

In this section, the management and organisational structures of Manweb are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure up until the takeover by ScottishPower. At privatisation, the executive directors on the Main Board of Manweb were as follows:

Name	Position	Joined Manweb in	From
Bryan Weston	Chairman	1985	Yorkshire Electricity
Richard Gales	Managing Director	1978	Norweb
Denis Farquhar	Executive Director (Network Services)	1955	ESI
Peter Hopkins	Executive Director (Trading)	1980	Eastern Electricity
Colin Leonard	Executive Director (Power Marketing)	1967	ESI
John Roberts	Executive Director (Finance)	1967	ESI

All of the initial executive director's, with the exception of Leonard (Executive Director of Power Marketing), were chartered engineers, and none of them had worked outside of the electricity industry, with the exception of non-executive directorship's held elsewhere (Kleinwort Benson, 1990, p.341). In 1992, the posts of Chairman and Chief Executive were separated, with Roberts becoming CEO in April 1992, and Weston becoming Non-Executive Chairman. Roberts' replacement as Finance Director was John Astall, joining Manweb from Du Pont-Howson. Finance was usually the first executive position within a REC filled by an external appointee. Manweb were somewhat late in following this trend, as most RECs had appointed an external finance director prior to privatisation. Howard Kirkham replaced the retiring Farquhar as Director of Network Services. He also came to Manweb from a non-industry background (Manweb, 1993, p.11).

A number of other significant changes occurred within Manweb prior to the takeover battle with ScottishPower. Weston retired, to be replaced by William Goodall as Non-Executive Chairman with Roberts remaining as CEO. Astall resigned, to be replaced by Stuart Siddall, another finance director from outside of the industry, this time from

Balfour Beatty. Hopkins took early retirement as Manweb moved out of retail. A new position, Director of Corporate Affairs was created in 1994 and David Vernon-Smith appointed from his post as Head of Human Resources (Manweb, 1995, p.16). At takeover, therefore, half of the Board were original senior managers, and the influence of managers with non-industry experience was limited in comparison to the experience of other RECs. The preponderance of managers from engineering backgrounds may explain, to some extent, the focus upon distribution.

In relation to organisational structure, Manweb had made early moves to adopt a product-focussed divisional structure. A new organisational structure was adopted 18 months prior to privatisation, and involved the creation of three distinct business divisions - distribution, supply, and appliance retailing and electrical contracting, under the corporate head office. Additionally, a corporate services business was also established to sell its expertise, in human resource management and training, information services and so on, to the three business divisions. The Head Office was responsible for major policy formulation as well as a range of activities such as purchasing, computing, industrial sales contract negotiation, and research and development. Operationally, the Company still maintained five areas which were largely responsible for customer related activities across the business divisions. Autonomy for business decision making was provided within a "framework of central planning, target setting and control" (Kleinwort Benson, 1990, p.342) that flowed from Head Office.

The structure was fine-tuned throughout the period. In 1995, the core distribution business was restructured into "three focussed units, supported by depots located throughout the region" (Manweb, 1995, p.3). These three operating units were:

- i) PowerNet: responsible for the strategic management of the network including control and capital investment planning;
- ii) Manweb Power Engineering: responsible for managing the construction, maintenance and day to day operation of the electricity distribution network; and
- iii) Business Support Service: responsible for essential services such as transport, technical training and telecommunications. It was also responsible for seeking new commercial development opportunities to exploit Manweb's expertise. This led to the creation of a fourth business:
- iv) Manweb Metering Services. (Manweb, 1995, p.8).

The restructuring was aimed at making the Company's main business more efficient and effective, as the shadow of the ScottishPower takeover bid loomed. Other businesses, such as contracting, also underwent internal restructuring, while others, such as retail,

were divested. The takeover by ScottishPower, effectively left Manweb as a distribution company, and as a brand name with which it competed in the Manweb area.

5.1.3 Strategy Decisions at Manweb

In examining Manweb's strategic processes, and in acknowledgement of the differences between The Company and the other RECs, a slightly different structure has been adopted for this section, which considers both its corporate and business strategies. Manweb's strategy was the most 'pure' and undifferentiated of the strategies developed by the RECs following privatisation. The company adopted a very conservative concentrated growth strategy focussed upon cost reduction and efficiency within the core business of the company. This manifested itself in improving the quality, reliability and effectiveness of the distribution business; making it work harder, and providing a differentiated low cost, high quality service for customers in the supply business. In supply, this formula brought considerable market development success, and the move into gas, when it was accepted as a logical move for a REC, was taken to further its organic market development approach. Manweb divested its retail interests as soon as it became clear they did not fit its profile, and reduced its contracting business to that which was necessary to support its distribution network. The Company made use of joint ventures, and consortia where appropriate and was also rumoured to be exploring the potential of a strategic alliance with Welsh Water, when it was subject to the ScottishPower bid. It did not attempt to enter into gas cycle generation, nor seek to diversify in any other areas popular among the RECs, such as international consultancy.

Therefore, Manweb undertook all of the actions that would have been expected of a company that had made an early decision to stick very closely to its core business functions, and not to seek to exploit the perceived new opportunities available to managers in the privatised ESI. The initial response from the City was very much in favour of this conservative approach, at a time when the City favoured utilities which were less adventurous. However, after the initial price review suggested that a reliability upon monopoly profits was not going to guarantee consistent future profitability the City changed its views. It began to favour companies which whilst more adventurous in developing new income streams had cautiously developed these streams to ensure there was a close relationship to their core businesses. That is, the City now favoured companies that had developed congruency in diversification.

Manweb now is more akin to a brand provided by ScottishPower than a separate company. Its current structure is functional, and key decision making flows down from its owner's head office. Manweb's chief value to ScottishPower is as a relatively secure

source of monopoly profits, and a means by which ScottishPower can find a ready market for a portion of its generation output, hence providing a hedge against fluctuations in the prices of electricity during the cycle. In addition, alongside Southern Water³, Manweb provides a means by which ScottishPower can drive out synergistic cost savings from concurrent technologies, marketing opportunities and individual expertise.

Manweb would appear to present an archetypical case of an organisation which determined its core intended market, and tailored its strategic behaviour accordingly. The City's view was arguably that it did not make sufficient use of its resources and seek available and appropriate revenue streams. As with London Electricity (Section 8.3), its strategic management appears to have been prescriptive, and consistent, and aimed at establishing and defending its niche roles within its home region. Its success may have contributed to its eventual takeover, as its decision to stay small made it a ready target for predator organisations like ScottishPower.

5.2 Norweb (Formerly the North West Electricity Board)

Norweb is the REC for the North West of England. The Company's operating franchise covered an area of 12,500 square kilometres centred upon the densely populated conurbation of Greater Manchester. Norweb's area was a mixture of domestic, commercial and industrial customers in an area of the UK that had seen significant recession during the 1980's. At the beginning of the period, the view held by analysts was that the Company relied too heavily upon heavy industry for its supply demand, although the Company felt that this was a misapprehension, which had caused market analysts to downgrade the rating of the Company unjustly. Norweb felt that it was not reliant upon any one sector of the economy. At the time of privatisation, however, there were hopes of a commercial recovery in its region. Norweb is of interest because of the image it created for itself at the time of privatisation, which emphasised its prudence and its aggression simultaneously. Norweb had a reputation as being among the best at marketing itself within the industry, and believed itself to be among the most efficient: at the beginning of the period, its operating costs were falling much faster than the industry average (Sychrava, 1990b). There was also strong support for the management team at Norweb at the beginning of the period, based upon their prudence, their ability to meet government targets and their self belief. There were however a number of initial 'black marks' against the Company: there was some concern that its capital investment replacement programmes were greater than average; it had the highest gearing at

3

ScottishPower's other English utility subsidiary.

privatisation; it was seen as one of the slowest growing companies at the beginning of the period, in relation to the number of units it sold; and it was thought to have the highest potential efficiency improvements to realise (Thomas, 1990g). It is also interesting as it was the REC that was the most committed to appliance retailing.

5.2.1 Key Events: 1990-2000

Norweb was seen as being one of the RECs most able to adjust to a competitive environment. The importance given by Norweb to its retail operations had instilled a competitive element to its organisational culture from the beginning (Fazey, 1988). Norweb had a reputation, for instance, of being an effective marketing organisation. It also had one of the most modern customer service operations of all the RECs at privatisation. The Company was also a leading REC in relation to its power purchasing activity, and had in April 1988 bought the output of the Chapelcross Magnox nuclear power station in Scotland, run privately by British Nuclear Fuels, accounting for around 5% of Norweb's energy demand. Norweb also had an early interest in locating energy from renewable sources (Samuelson, 1989b), anticipating that up to 12% of its requirements could come from such sources. This interest has persisted throughout this period, and has included investments in wind turbines (Samuelson, 1990d), and gas from refuse projects (Maddox, 1992). Norweb was also the first of the RECs to become involved in a self-generation programme, taking a 20% stake in a joint venture with ABB called Lakeland Power (Samuelson, 1989e), as part of Norweb's attempt to obtain energy "at the best price consistent with reliable supplies". It was also active in the Combined Heat and Power (CHP) market, in a joint venture with Combined Power Services (Thomas, 1990j). Norweb was also the keenest of the RECs in the area of appliance retail, and the most active in attempting to grow this part of its business.

The Company, having made these initial moves, was clearly setting an agenda of "exploring opportunities to develop profitable new income streams from the Company's assets and resources" (Kleinwort Benson, 1990, p.509). Noticeably there was a similarity of attitude here to that of EME (Section 6.1), but equally noticeably the actions which accompanied this statement were all clearly within the realm of related diversification, rather than EME's actions which were at least partially unrelated. Its search for new opportunities saw considerable expansion between 1992 and 1994, and these are some of the highlights:

- ▶ In Generation: In addition to its participation in Lakeland Power, its generation subsidiary Norweb Power bought 50% of the Keadby Power generation project, in a joint venture with Scottish Hydro (Anon, 1992b) to help it spread risk in its energy purchasing operations. In 1994, its ambitions in relation to the

opportunities offered by generation were shown when it approached PowerGen and National Power about buying the capacity it had been required to divest⁴ (Hollinger, 1994);

- ▶ In Gas: it established Northern Gas, a joint-venture with UtiliCorp in April 1992, to market gas to large industrial users in competition with BG. Norweb held 75 per cent of the venture (Sychrava, 1992b). In October 1994, Norweb announced it would set up a national gas marketing company to market to domestic customers as well;
- ▶ In Appliance Retail: In June of 1992, it significantly expanded its retailing activities through the acquisition of 20 Atlantis electrical superstores from Thorn EMI for £5 million (Thornhill, 1992a) as part of a strongly expansionary course in retailing. This was followed in February 1994 by a collaboration with ICL to establish a chain of at least 20 computer superstores under the 'Icon' brand (Cane, 1994), and in 1995 by a decision to buy 18 out-of-town superstores and licences to operate 16 high street shops from SWEB, paying £4.3 million plus a consideration for stock (Lascelles, 1995a). All of these actions were part of a strategy to expand its retail activities from 63 superstores in 1995 to 200 by the end of the decade;
- ▶ In Telecommunications: As Norweb Telecommunications, it was issued with a telecommunications licence in 1994, and announced its aim to work with Energis in direct competition with BT (Adonis, 1994); and
- ▶ Overseas Investment: In June 1994 it paid \$36 million (£23.6 million) for a 50% stake in two gas-fired co-generation facilities in Virginia (Smith, 1994d). Later that year, as a sign interpreted as indicating that further such investments were to be expected, it became the first REC to be listed on a US stock exchange (Lascelles, 1994e).

In addition to these expansionist policies, it was also concentrating on being efficient and effective in its home market. Norweb was identified as the second best performer in the Regulator's 1992 disconnections league and claimed that its unit price reductions for the first five years following privatisation had been greater than concurrent increases in inflation. In 1993, following the reporting season it became the first among the RECs to talk about price freezes rather than rebates, taking the view that this was better for customers in the longer term. Finally, in 1995, it introduced a 6% price reduction, the highest percentage price cut in the industry to date. By this time, Norweb was the most

4

Which was eventually sold to Eastern Group (Wighton, 1996; Holberton, 1996f).

diversified of the RECs, but also among the most highly rated by the City. Its managers were felt to have balanced cost reduction, profitability, improved service quality and diversification in a fashion which was satisfying all stakeholders, and overcoming the City's usual reticence towards, in particular, its continued involvement in retail.

Early in the takeover 'frenzy' which followed the expiration of the Government's golden shares in the RECs, Norweb began negotiations with North West Water (Peston, 1995), as well as Texas Energy Partners, a strategic alliance between Houston Industries and Central and South West Corp. Norweb initially turned down North West's bid preferring to work with the US companies, and became the centre of a contested takeover. The rationale behind the US companies' interest was familiarity: the companies had worked together in the past, had faith in the existing management team and believed that Norweb was 'uniquely well positioned' for the further deregulation of the electricity supply market. Norweb had the lowest tariffs and second lowest 'added costs' of all the RECs, and had performed well in the sectors of the market already opened up to competition (Wighton, 1995b). Arguably, if the US bid had been successful, Norweb would have continued more or less as before, except with the financial strength of the US companies enabling it to pursue its business objectives even more strenuously⁵. However, North West Water won the auction in November of 1995, and set about seeking synergies through integrating the two companies. It did so without the two most senior Norweb managers: Harvey, the chief executive, and Wilson, the finance director, who left the Company immediately. The combined company was renamed United Utilities on 1 January 1996.

A first stage of the rationalisation following the merger saw United Utilities reducing its group workforce by 2500 in March 1996. The potential for savings resulting from the merger were then estimated to be in the region of £494 million by the close of the decade (Harverson and Taylor, 1996). The extent of this potential saving was justified by the scale of overstaffing and inefficiency North West Water claimed to have located within Norweb. United Utilities was also intent upon divesting businesses developed by Norweb, such as its appliance retail business, that it did not now consider to be core.

In October 1996 it announced the sale of its process equipment division, formerly part of North West Water, for £125 million to the US Filter company (Martinson, 1996c). This sale was followed in November of the same year by the sale of the loan portfolio of its Norweb Retail business to Lombard Tricity Finance for £113 million (Blackwell and

5

CSW eventually took over Seeboard, and adopted just such a 'hands off' approach.

Martinson, 1996), with the sale of the shops themselves, to Comet for £29 million (Martinson, 1996f), following shortly after. Its initial disposal programme was concluded when it sold its 50% share in the Keadby power station to Scottish Hydro for £253 million (Martinson, 1997a), and its US generation interests to Indeck North American Power Fund for \$40 million (£25 million) (Anon, 1997a).

However, this final sale was not an indication that all overseas activities were to cease as in early 1997 United Utilities signed a contract to operate an electricity network in Argentina in a contract worth £249.3 million (Martinson, 1997b), while it also began to look to participate in major international consortia. At home, the Company's new focus upon related core activities was demonstrated further by the formation of a joint venture between its Vertex business and Northern Ireland Electricity, to provide billing, meter-reading and related services (Brown, 1997), although the venture was later cancelled. The focus of the Company on competing effectively in the new energy market was reiterated by the launch of its new brand name, Norweb Energi (Martinson, 1997c). The Company was also the first of the UK utilities to forge an affinity alliance with a major food retailer, Tesco (Hollinger, 1998).

However, a divisive board room battle in 1997 saw changes in senior management within the Company creating the anticipation of further changes in its direction. These changes were expected to involve the possibility of scaling back plans for international expansion and a re-focus upon achieving greater efficiencies from its core, regulated businesses. This 'back to basics' approach was announced in November of 1997, and effectively acknowledged that the lack of a core focus had led to the Company's central businesses failing to perform adequately. Subtextually, the new direction suggested that United's involvement in electricity supply was also being reevaluated (Holberton, 1997f). This reevaluation was a product of the increasing competition within supply, allied to the increasing demands in particular of regulation in the water industry. Almost inevitably, United announced its sale of Norweb Energi to TXU Europe (Section 7.1) in August 2000. The sale valued Norweb at £310 million (United Utilities, 2000c). The move took United closer to a core skills focus. Interestingly, as part of this new focus, the Vertex operation is managing a large service contract for TXU Europe.

5.2.2 Structure of Norweb

In this section, the management and organisational structures of Norweb are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure up until the takeover by North West Water. At privatisation, the Executive Directors on the Main Board of Norweb were as follows:

Name	Position	Joined Norweb in	From
Ken Harvey	Chairman	1989	London Electricity
Alf Crowder	Managing Director	1983	Midlands Electricity
Bernard Benson	D i r e c t o r o f Administration	1965	National Coal Board
Malcolm Faulkner	Marketing Director	1967	ESI
Alec Simmons	Operations Director	1951	ESI
Brian Wilson	Financial Director	1982	North of Scotland Hydro Electric Board

As with Manweb, all of the senior managers from Norweb were energy industry men, of whom half were engineers and half accountants (Kleinwort Benson, 1990, p.499). It is interesting to note that while this configuration within Manweb led to a narrow operational outlook, the same could not be said for Norweb. By 1993, there had been a small number of changes to the Board's structure. Harvey was still Chairman and CEO, although there was no longer a Managing Director. Harvey was very much, therefore, the principal senior manager. Norweb's increasingly outward looking strategy was reflected in the appointment of Peter McTague as Retail Director from Comet Group to head the Company's expanded retail operations (Norweb, 1993, p.22). Otherwise, the board's membership remained as before. This board structure took Norweb into the takeover battle with North West Water. Harvey's role within the Company was pivotal. In most analysis, he was estimated to be the key influence upon Norweb's strategic outlook, supported by a team of colleagues who for the most part had worked within Norweb for a long period of time. Most senior Norweb managers left the Company after the takeover, and were replaced by managers from North West Water. The current board of United Utilities consists of John Roberts, Chief Executive; Sir Peter Middleton, Non-Executive Acting Chairman; Simon Batey, Group Financial Director; John Beckitt, Managing Director, Energy and Telecommunications; and Gordon Waters, Managing Director, International Operations.

In relation to organisational structure, Norweb was a company which was functionally structured with a dominant Head Office providing the main strategic thrust, supported by a geographically oriented divisional structure in the field. At the beginning of the privatisation process Norweb along with most RECs operated a two-tier structure, wherein five areas and a number of centralised functions reported to the headquarters in Manchester. The headquarters itself was responsible for the formulation of policies and

the management of the various centralised functions, which included marketing, purchasing and sales, management of the distribution system, the Company's generation interests, finance and general administration. The areas therefore were responsible for the construction and maintenance of the distribution network, and customer related activities such as meter reading, collection, and local emergency services. The appliance retail, and contracting subsidiaries were managed separately from the main company headquarters.

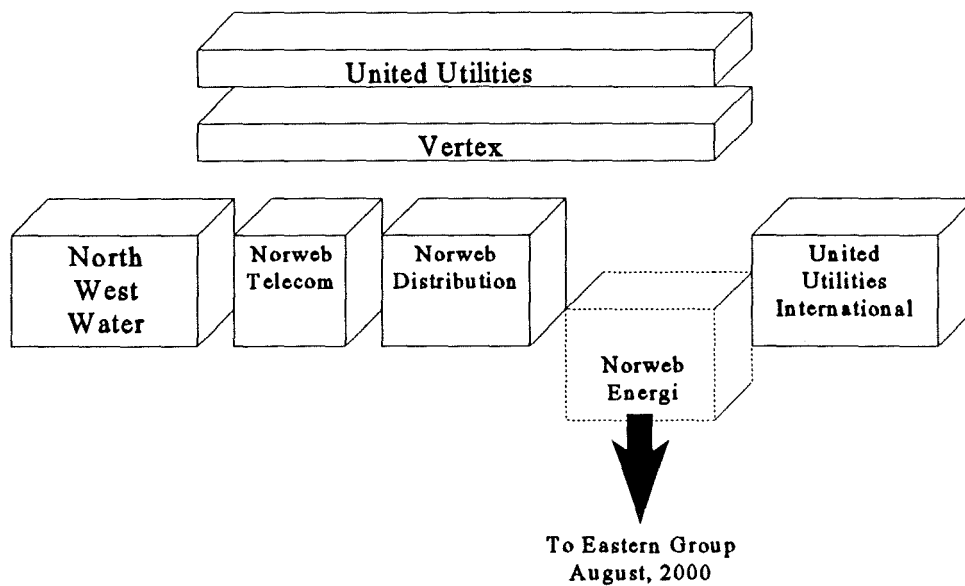
The managerial structure of the Company was as follows: "The management of Norweb is controlled by six Executive Directors, comprising the Chairman, Managing Director and four Directors who are responsible for operations, marketing, finance and administration. The Operations Director is responsible for the electricity distribution and generation businesses, with day to day management delegated to an Operations Manager and five Area Managers. The Marketing Director has overall responsibility for the supply business, appliance retailing, electrical contracting and electricity marketing, with day to day management for each of these delegated to a separate manager" (Kleinwort Benson, 1990, p.500).

The original structure was amended after the 1994 price review, but the changes following the review were not substantial, with the existing five area offices cut to three. However, there were more substantial changes in relation to the composition of the workforce of Norweb, as a plan to reduce its number by 1200 over 5 years was announced. This was increased by a further 450 after the extraordinary second regulatory price review in 1995. Therefore throughout the period of its independence, Norweb retained approximately the same organisational structure, based upon a functional departmental configuration, rather than a divisional framework.

After the takeover, United Utilities began the task of developing a new organisational structure. One of their first acts was to establish a facilities management subsidiary called Vertex. This subsidiary would be charged with merging and rationalising the customer service and billing operations, as well as information technology services, for United Utilities. The creation of Vertex was the principal action in the restructuring, which produced the following group structure:

As Figure 5.1 demonstrates, Vertex is now one of five main businesses within the Group: The core regulated business of North West Water and Norweb Distribution; the emergent unregulated businesses of Vertex (business process outsourcing) and Norweb Telecom; and the international operating arm United Utilities International (operating in both water and electricity). However, as Figure 5.1 shows, United Utilities has recently divested its

Figure 5.1: Current Structure of United Utilities



Norweb Energi business (United Utilities, 2000b). The Group is now very much operating a divisional structure, based upon products. The emergence of Vertex was an highly innovative, and market leading development. In the same way as Eastern's development of its energy trading function into a core business, the development of Vertex is evidence of an organisation which is basing part of its strategy upon the exploitation of its key resources.

The structure and strategy of Norweb appear to have jointly emerged at around the time of the privatisation, and to have evolved together. During the Company's period of independence there were no major changes in strategy, more of a managed evolution, and only one change in organisational structure, and that was only for a readjustment following the 1994 regulatory price review. Since United Utilities was established, structure and strategy have again kept pace, and arguably the Group's strategy has driven its structure as the coordination of so many disparate activities could arguably have only been managed through a product oriented decentralized structure.

5.2.3 Strategy Decisions at Norweb

It is difficult to precisely assess the strategic process that Norweb followed with any certainty, but the secondary evidence suggests that while the process was not fully prescriptive, there was evidently strong guidance from within the dominant coalition. Norweb appeared to be an organisation where the senior managers made core business

decisions, and established the limitations of the options available to subordinate managers in their pursuit of the Company's objectives. However, this does not detract from the appearance that many aspects of day to day decision making was devolved to functional management levels. The philosophy of CEO Harvey, however, appears to be the key strategic factor in Norweb's early progress, and while devolution of responsibility appears to have occurred, Harvey's impact upon decision making of this kind would have been considerable. This suggests Farkus and Wetlaufer's (1996 and Section 2.3.2) 'strategy approach' was employed by the CEO.

In looking at strategy making within Norweb it is important to acknowledge the significant changes that have occurred to the Company's strategy as a consequence of the takeover by North West Water. Consequently, it is proposed to address the questions of corporate and business decisions by phase, rather than by business. As such, Section 5.2.3.1 looks at strategy decisions prior to the takeover in 1995, and Section 5.2.3.2 looks at strategy decisions after that date.

5.2.3.1 *Norweb*

Norweb was, after EME, perhaps the most extensively diversified of the RECs. Throughout the Company's period of independence, it took the view that its non-core activities needed to provide around 20% of its profits, by the target date of 1998. This was due to the expectation that distribution as a source of profitability was increasingly likely to be squeezed. As referred to earlier, prudence in all of its operations was also seen as being a key aspect of its approach. In distribution, it practised a concentrated growth approach based upon effective management of costs like each of the other RECs. It was regarded as having faster falling operating costs than other RECs, but this was against an initial position of a less modern network, making its cost management in difficult circumstances more laudable. After the price review of 1994, it announced a major cost reduction programme in its distribution business, severely reducing its staffing levels. This suggests that the Company was not managing its distribution business as effectively as it may have done, a criticism levelled by North West Water after the takeover.

In supply, the Company sought to adopt the same operating principles as in distribution, and so followed a concentrated growth approach based chiefly upon marketing itself effectively, and providing an high quality service. While it initially lost a number of large customers, it was constantly at the head of the Regulator's service performance leagues indicating a differentiation focus or segmented benefit focus approach for domestic customers in advance of market liberalisation. Norweb refused to sell electricity to large customers at a loss as a means of building market share, as some of the other RECs had

done. However, it was prepared to compete on price generally, and in 1995 offered the largest percentage cost reduction to its domestic tariff customers, and by 1996 was the lowest cost per unit supplier in the industry. This reflects a commitment to a mass market utility, or mass market benefit approach in domestic supply. After the takeover, the Company explored the potential of greater differentiation.

In other businesses, Norweb was aggressive but still sought to maintain a prudent, concentrated growth approach. As the only REC to fully commit to appliance retail, it had to operate in a low margin industry which required a low cost approach, with a differentiation focus upon customer service. In generation, it was seeking low cost, low risk alternative sources of energy from various sources to support its core concentrated growth approach, as it did in its gas marketing business. In telecoms, it developed an alternate use for its core competencies in network management, and through its research and development activity created an innovative product with which it successfully differentiated itself in an increasingly competitive market.

Overall, therefore, Norweb was an organisation that had a very clear approach to business which can be summarised as aiming to be low cost in all of its activities, but simultaneously looking to differentiate itself from its various competitors. Its strategy was much more measured and related than that of EME, and its ability to make retail work⁶, speaks of considerable management capability. Its management clearly believed that they had developed a winning strategic formula, and were looking for a strategic partner with substantial financial resources, and an international outlook to facilitate this plan on a wider scale.

5.2.3.2 *United Utilities*

The new managers at United had based the business premise of the merger upon the availability of cost savings, and so unsurprisingly set about reducing costs throughout the organisation. In effect, the merger allowed the opportunity of a turnaround in the Company's activity, to enable it to refocus. The decision of the new management was to emphasise core businesses, but to retain an aggressive, outgoing approach. They defined their core businesses as being the traditional businesses of the original companies: water and waste management at North West Water, and distribution and supply at Norweb. To these were added those businesses that had developed within the companies that were related to existing core businesses such as gas and telecoms. Finally, new business

6

Although in truth its contribution to overall profitability was never substantial.

opportunities opened up by the merger: such as business processes management and international development, were also considered to be core. The other business activities the Group inherited were defined as being non-core, and subject to a programme of strategic divestment.

Within the regulated core activities of water and electricity distribution, the cost management based concentrated growth approaches remained. Within other businesses, the potential for differentiation was explored. In supply, the Company's approach led to aspects of market and product development, based upon differentiation. The affinity agreement with Tesco was such an innovation, being the first of its kind, successfully differentiating it from competitors in the newly competitive domestic market, as did the Company's dual fuel offerings. United Utilities was also seeking to become more active overseas. However the Company was subject to a second turnaround in 1997 when the Company's performance was thought to be poor, and the results produced suggested to some analysts that the takeover had not been worth the effort⁷. The new focus of the group is a rigid concentrated growth approach, based upon overall cost leadership. The Company has recently sold its electricity and gas supply businesses, and is thinking about floating its telecoms business.

In February of 2000, the Company issued the following statement of its key priorities in order to meet the demands placed upon it by the regulators in both of its core industries. These priorities, focussed upon growing shareholder value, involved:

- ▶ controlling costs to meet the regulatory targets;
- ▶ maximising multi-utility synergies to outperform those targets; and
- ▶ developing its non-regulated businesses (CEO John Roberts, United Utilities, 2000a).

Ultimately, therefore, the Company has adopted a strong concentrated growth approach for its main regulated businesses, while seeking risk averse related diversification to increase income generation within its unregulated activities.

5.3 Northern Electric and Gas (formerly Northern Electric)

Northern Electric is the REC for the North East of England. The Company's operating franchise covers an area of 14,400 square kilometres and is bordered by the Pennines in the

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An initial review of the new company's performance in relation to cost reduction had reached the view that most of the cuts could have been accomplished without the necessity of the formal takeover, suggesting that both organisations had not been operating as efficiently as they would have liked it believed.

west, the Scottish border to the north, the North Sea to the east, while its southern border is in North Yorkshire. The area historically was home to many heavy industries, but as these have relatively declined the composition of its customer base has become more varied. There is still much demand from industrial customers, and in particular the chemical industry, many centres of urban demand in the cities of Newcastle, Sunderland and Middlesbrough, and new commercial developments. The large numbers of industrial customers made Northern relatively susceptible to attack when the 1MW supply market opened up, and its interests were thought to be closely tied to the economic strength of its economy. The Company is primarily of interest as it was the first REC to be subject to an hostile bid with the expiration of the government's golden share, and its defence strategy became the key factor impacting upon the process of regulatory review.

5.3.1 Key Events: 1999-2000

Northern entered the period with a strong reputation as a low cost organisation, as well as one which had proved itself extremely able in the recovery of bad debt. However the Company was thought to have an image problem, and requiring of itself to develop new skills in areas like marketing and advertising in order to prosper in the new operating environment (Sychrava, 1990d). Its management were also thought to be held in relatively low esteem by the City. Despite this, and a view that the Company 'lacked a strategy' (Pearson, 1991b), Northern's activity in the early years following privatisation conformed to its objective of being tough on controllable costs, on improving asset utilisation, and on refining systems to measure company performance. It also had invested considerable time and effort to raise customer awareness among its staff (Lascelles, 1992a).

In support of these objectives, Northern was one of the first RECs to introduce a formal job reduction programme, when it announced it was to cut 500 jobs over 5 years (Sychrava and Bolger, 1991) principally in contracting, which appeared to be targeted for closure. It also sought to ensure it had access to cheap supplies of electricity. Northern was one of the RECs that was particularly keen on developing its own generation capability. Within the pathfinder prospectus, mention is made of three such investments: the Teeside Power project in a joint venture with Enron, ICI, and three other RECs; a joint venture with Scottish Hydro-Electric and BOC⁸; and a joint venture with Indeck Energy Services (Kleinwort Benson, 1990, p.444-445). The prospectus suggests that these investments were just the beginning, and that the Company would continue to seek

8

Later joined by British Steel, forming the Neptune Consortium (Buxton, 1990).

further investments of this kind. In 1991, it was one of three RECs that formed joint ventures with Combined Power Systems to develop and market CHP systems (Anon, 1991b).

The Company's interest in generation can perhaps be linked to its area's heavy industrial and coal mining heritage. This heritage presented Northern with significant problems in relation to retaining its existing large supply customers: firstly, as they were now able to choose to purchase their energy from another supplier, and secondly that, if they so wished, they could invest in generation plant, and supply themselves. Either way, Northern would need to be extremely competitive to retain its existing large supply customers, or win market share from competitors.

Northern was also the REC most keen to develop a telecommunications business, with its company chairman acting as chair of the ESI's telecoms study group, although concrete plans for investment did not emerge until after floatation (Thomas, 1990h). When it did enter the industry, it was as a partner in Yorkshire Electric's Ionica venture, with Ivory & Sime, 3i, Robert Fleming, Kingston Communications and Symbionics. Telecoms provided for some of the RECs a solution to the question of where risk averse non-regulated income was to be generated. Northern did not diversify as widely as other RECs, which placed a burden upon its generation and telecoms activities in reaching the intended target of 10% of income from non-regulated activities. Other activities developed in this period prior to the attempted takeover by Trafalgar House included:

- ▶ a joint venture power station with ScottishPower (Smith, 1993b);
- ▶ investment in a venture capital fund called The Quantum Fund aiming to exploit new developments with commercial potential coming out of the University of Newcastle (Tighe, 1993);
- ▶ applying for a supply licence in Northern Ireland (the first REC to do so);
- ▶ increasing its number of large out of area supply customers to 400 as it developed critical mass in this business especially after the opening of the 100kW market, while at the same time sought to recapture those of its own large customers lost since the introduction of competition⁹;
- ▶ retained a rolling cost reduction target of 3% per annum;
- ▶ launched its own gas marketing business; and
- ▶ formed a joint venture with Neste, the Finnish state-owned oil and chemicals company, to own North Sea gas reserves (Lascelles, 1994a) to further its aim of

9

Northern was estimated to have 9% of the 100kW and above market in 1994 (Lascelles, 1994d).

building an integrated gas supply business.

From 1992, therefore, the City's views of the Company were subject to some change. The strategy favoured by Northern: tough management of costs, a focus upon service quality, and limited diversification based on generation, was finding favour as generation risk was increasingly perceived to be limited and the benefits of cost management identified as central to a REC's approach. Overall, however, the Company was thought to be an average REC, with the City in favour of its cost management but still sceptical about its attempt to build its supply business. It was hit by one of the hardest regulatory cost reduction targets following the 1994 price review. It reacted to the price review by announcing a further 800 job losses (Smith, 1994i).

The events of late 1994 and the whole of 1995 have effectively overshadowed all of the rest of the Northern Electric story. During this time it was subject to two hostile takeover bids: the first in the industry, the second of which was successful. Trafalgar House, the conglomerate building and shipping company, announced it was considering bidding for Northern in December 1994, four months before the Government's golden share elapsed (Smith and Wighton, 1994). Northern was chosen, analysts speculated, because of its relatively small size, and the belief that the Company's management had not achieved all that it could following privatisation. Another feature may have been Northern's prominence and success in the supply industry, and its developing share of the gas industry (Lascelles, 1994f). Trafalgar House's objectives, it was widely believed, were based upon the opportunities a RECs strong cash flow held to help with its financial engineering. Trafalgar House launched its bid by criticising Northern's record in unregulated businesses, specifically supply and retail (Hollinger, 1995a). Its bid valued Northern at £1.2 billion.

Northern developed a defence of the 'scorched earth' variety, involving handing back value to shareholders through a special dividend (Hollinger, 1995b). Even when the bid failed, due more to the Regulator's response to Northern's defence than the bid itself, the Company's board followed through with their promise of returning value, an act seen as being of questionable value, and one which left the company much weaker.

In terms of strategy, or rather a reevaluation of strategy following the bid defence, Northern's only real change was to announce that it did not intend to pursue domestic customers with the same vigour as it had pursued larger customers. It maintained its record of success at winning large supply customers when it won the contract to supply all of the Sainsbury's supermarket chain stores, in November 1996. While the threat of

a second bid loomed, Northern entered into another generation venture, this time with Rolls-Royce Power Ventures, in a project called Viking Power (Holberton, 1996j).

After the success of the bid defence, Northern became the least attractive investment in the industry, its reserves having been severely reduced by the cost of the defence (Holberton, 1996a) where it returned over £500 million to its shareholders. However, this did not prevent CalEnergy of Nebraska, offering £766 million in late 1996 (Holberton, 1996n). Northern attempted to defend this prospective takeover, but lacked the resources it had employed against Trafalgar House. The lack of resources forced it to resort to a range of novel business solutions, such as suggesting it would merge its supply business with London's (Holberton, 1996h). After a long, acrimonious and contentious battle, CalEnergy finally gained the agreement of the Northern Board to the takeover on 30th December 1996 (Lindemann, 1996).

After the takeover, the new owners announced that their success was to be followed by an expansion of the Group's activities in Europe, using Newcastle as its base, as it sought to break into electricity supply and distribution in Europe and Asia. Among the countries targeted for activity by the new company were the Philippines and Indonesia, in distribution and supply, and Poland and Hungary, in generation (Holberton, 1997a). The Company also sought to play a full part in the competitive gas and electricity supply markets which were due to open fully in 1998. It signalled its aggressive intent in the UK supply industry, by announcing a package of discounts worth up to £140 for customers buying both gas and electricity from it when the competitive market opened up (Anon, 1997b), as well as buying seven licences from BG in support of its gas market activity (Corrigan and Lewis, 1998). This appears to represent a mass-market cost approach in domestic supply. It's owners international intentions were signalled by its purchase of fellow US utility MidAmerican Energy, making the combined company a significant player in the US domestic market.

Following the 1999 regulatory review, the new Company showed it was still pursuing the underlying strategies of the old Company when it announced it was cutting 500 jobs, although after the threat of industrial action this compulsory cut was down-graded to a voluntary programme. Northern clearly intends to be a key player in the developing energy market in the UK. It is the only REC that is involved in both the traditional core businesses of Distribution and Supply, the new core businesses of Generation and Gas, the traditional non-core businesses of Retail and Contracting, the new unregulated business opportunities of metering and telecoms, as well as seeking new business applications of its core skills through a variety of its separate businesses.

5.3.2 Structure of Northern Electric

In this section, the management and organisational structures of Northern Electric are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure. At privatisation, the Executive Directors on the Main Board of Northern Electric were as follows:

Name	Position	Joined Northern in	From
David Morris	Chairman	1988	Delta Group
Jack Harmsworth	Managing Director	1949	ESI
Ron Dixon	Managing Director - Power	1954	ESI
Alan Groves	Finance Director	1974	ESI

Northern possessed the smallest board from this sub-section of the RECs at privatisation, and was also the only REC from this group to boast a CEO with experience from outside of the industry. In other respects, however, the board conformed to the norm as it was comprised of engineers and accountants, and had a very long association with the industry, with the obvious exception of Morris (Kleinwort Benson, 1990, p.446). Inevitably, the demands of the new operating environment required a larger board and by 1993 an extra member had been appointed and new designations awarded. Morris was still Chairman but had been joined by Tony Hadfield as Managing Director, later CEO, after the retirement of Harmsworth. Hadfield was an industry man, joining from Northern Ireland Electricity. Bill Hook was promoted internally to become Operations Director, sharing some of the responsibility for the core businesses with Dixon, who became Commercial Director (Northern Electric, 1993, p.4-5). The Company was still, therefore, predominantly engineering and industry led. John Edwards replaced Groves as Finance Director in 1995 from Jaguar Cars (Northern Electric, 1996), but this change apart the same board remained in place during the two takeover bids by Trafalgar House and CalEnergy.

After the Company lost its takeover battle with CalEnergy, the new owners moved quickly to introduce its personnel onto the board, initially by taking eight non-executive directorships. In contrast to other contested takeovers, such as SWEB, the changes to the board of Northern when they came were limited. As was to be expected, Morris stepped down as chairman and was succeeded by David Sokol, CalEnergy's US-based chairman and chief executive, who also took the role of chief executive. Greg Abel, the US Company's chief accounting officer, took over Northern's day-to-day operations in Newcastle, and to spearhead future moves by CalEnergy elsewhere in Europe. Morris

reciprocally joined the CalEnergy board. Hadfield stepped down from the board but was retained in a consultancy role, while Edwards and Dixon remained in their present roles for the time being. All the non-executive directors resigned (Caswell, 1997). Sokol shortly gave way to Abel, and Edwards and Dixon had both left before the end of 1997. They were replaced by Malcolm Chandler, Eric Connor and David Swan who were promoted from within Northern, and Don O'Shel Jr, formerly president of CE Asia, who came to Newcastle to run the Company's generation business.

CalEnergy itself was undergoing major structural change, as it merged with another US utility, MidAmerican. While CalEnergy was the dominant partner in the merger, it assumed the MidAmerican name. The principal impact of this development to Northern was that Abel returned to the USA to become president and chief operating officer of MidAmerican Energy Holdings Group, to be replaced by Connor as President of Northern (Tighe, 1999). Connor had been with Northern since 1992 after a career in a variety of Northern engineering organizations, and had previously been the managing director of its Northern Utility Services business.

At the beginning of the privatisation process, Northern was organized around a two-tier structure within which four regions reported back to the Head Office. Northern was one of the few RECs to clearly operate a product oriented divisional structure from the period prior to privatisation. The three divisions: power, retail and building services each had its own divisional managing director, who reported directly to the Group Managing Director. The Power Division, which encompassed both distribution and supply was further divided into four departments: operations, finance, personnel and commercial. The relationship between the regions and departments within the power division was as follows: "the day to day business operations of the power division are the responsibility of the four regions, each headed by a regional manager. The regional managers report to the Managing Director, Power, and operate within a framework of central planning and policy making, target setting and control. The four departments of the power division provide functional policy and advice to the regions" (Kleinwort Benson, 1990, p.446). Other central functions were undertaken within the Head Office, and reported to either the Chairman or the Managing Director. Northern therefore operated a product oriented-divisional structure, but had not as yet recognised the need to differentiate between the Company's two core business activities.

However, this was a requirement under the Public Electricity Supply Licence granted in 1990, and shortly thereafter the businesses were separated. Since this time, Northern has proceeded by developing a series of standalone businesses across its many areas of

activity. In 1994, its distribution business was divided into two: Northern Electric Distribution and Northern Utility Services. Northern Electric Distribution was to manage the network while Northern Utility Services was to provide services including construction and maintenance (Smith, 1994i). The new structure aimed to improve effectiveness while reducing the number of staff employed. The new structure is presented in Table 5.1.

Table 5.1: Current Structure of Northern Electric and Gas

Northern Electric Distribution Ltd	"responsible for the development, maintenance and operation of Northern Electric and Gas's electricity distribution system"
Northern Electric Supply Ltd	"NESL's business is the delivery of reliable supplies of competitively priced energy and associated services to meet the needs of customers throughout the UK"
Northern Utility Services Ltd	"NUSL is NE&G's electrical contracting business, providing design, construction and maintenance services up to 132kV and a complete utility services installation package. Applications include project management, diagnostic testing, commissioning, and the utilisation of trenchless technology to lay pipes, ducts and cables"
Northern Metering Services Ltd	"NMSL bases its business upon the provision, installation, refurbishment and replacement of metering, together with data collection for NE&G and other businesses throughout the UK"
Northern InfoCom Ltd	"NICL provides products and services at competitive rates to internal and external companies, including application development and support, software sales and facilities management, consultancy, contracting, desktop services and systems integration" and well as its telephony requirements and security systems.
Northern Electric Properties Ltd	"NEPL holds the Group's non-distribution property assets. It manages the portfolio and acquires and disposes of premises to provide the maximum benefit to NE&G"
Northern Electric Generation Ltd	"NEGL is responsible for the management of the existing assets and investment in generation projects and for the identification and development of new projects and business opportunities relating to electricity generation"
In addition, there are a series of group functions performed at the centre of the organisation:	
Corporate Finance	"responsible for financial planning, treasury and property matters"
Personnel and Public Affairs Department	"The personnel function provides employee relations, personnel administration, quality improvement, training and staff development services. Public Affairs is concerned with earning understanding and support for the Company and its activities"
Company Secretary's Department	"responsible for services to shareholders and for legal compliance, insurance and Head Office services"

(Source: Northern Electric and Gas, 2000a)

Clearly, as Table 5.1 shows, Northern Electric and Gas operates within a decentralised group structure of a portfolio of product oriented divisions. The functions of the corporate centre are limited to those activities that are legally required of the Company, or uneconomic to undertake within the businesses. While targets for strategic objectives can be expected to be set in the USA, and the main board of Northern would provide the outline strategy and to 'sign off' on major projects, much of the business decision making will take place within each of the separate business within the group. The concept of the Internal Network (Miles and Snow, 1992) is also developing within Northern.

5.3.3 Strategy Decisions at Northern Electric

The purpose of this section is to identify and key corporate and business strategies Northern pursued from 1989 until the takeover by CalEnergy/MidAmerican. Part of the analysis seeks to determine whether there was a single company approach to strategy during this time, or whether each business developed an individual approach. This section also seeks to understand whether there is any difference between the strategies of the Company before the takeover, and those evident after.

5.3.3.1 Corporate Strategy

As has been suggested throughout this section, Northern's original strategy was based very closely upon a concentrated growth approach. In all aspects of the business, the emphasis was placed upon effectiveness and efficiency, of making each asset work as hard as it could to maximise returns. In some areas of its business, such as generation, it sought to deepen its concentrated growth approach by backward vertical integration. To enable it to price its products competitively, it sought to ensure that the controllable cost elements of its prices were minimised. Therefore, it sought a significant proportion of self-generation assets to improve the marginal cost of wholesale electricity. However, in other areas of its business such as electricity purchasing, this same impetus can be seen to have backfired on the Company to a certain extent. For example, when it signed long term contracts with the generators for coal-fired energy to hedge against future *high* prices, it saw coal prices *fall*.

In other areas of its business, such as supply, the Company became an aggressive market developer in support of its concentrated growth approach. At one stage the success of this approach was evident as the Company held around 9% of the non-franchise electricity supply industry. Gas was and remains important for Northern. Its early concentric diversification into gas was taken around the same time as other RECs, seeing the possibility to some extent of convergence between the two industries. However, Northern was perhaps the first of the companies to realise the value of becoming fully integrated

into the gas industry, and how taking down-stream assets enabled it to more effectively pursue both its supply and generation ambitions, once again supporting the concentrated growth approach. Northern has again been aggressive in developing its gas market, and is reported to currently have over 2 million customers for either gas or electricity.

Northern is unique among the RECs in seeking to be present in all of the conceivable areas of business, with the exception of water, that RECs have entered since privatisation. Aside from the industries already mentioned, Northern:

- ▶ is one of only two RECs to remain in appliance retail;
- ▶ retains a contracting operation;
- ▶ has investments in telecommunications and IT; and
- ▶ through its owners has increasing involvement overseas.

Throughout the Group, therefore, a variety of different corporate strategies are being utilised, as appropriate to the very different operating domains. However, throughout the Company a traditional commitment to a concentrated growth approach is emphasised.

5.3.3.2 Business Strategy

In considering the Company's business strategy choices, this research inevitably focusses upon those areas of business that require competitive strategy, and consequently the focus is principally upon supply. In regulated businesses, like distribution, there is an absence of competitive strategy. In other areas, such as generation, the actions of the power pool distort the competitive process and lead the strategic options available to the company¹⁰.

In this area Northern's instinct has always drawn the Company towards being both a low price, and high quality organisation, giving the impression of a segmented utility approach. From an early stage the Company had a strong emphasis upon quality customer service, beginning with the innovative awareness raising initiatives that greeted the Company's arrival in the new era. Its performance across a range of standards, as demonstrated in the latest OfGEM report shows a company which is among the mid-range of RECs. The Company has tended to perform very well in relation to complaints per 10,000 customers (OfGEM, 2000, p.23). However, the Company has not been able to sustain a high level of service throughout this period and in recent time has come under considerable criticism over problems experienced with its billing systems (Corzine, 1999). The Company was

10

A explanation of the strategic options available to generators will be discussed in more depth in the case study of Eastern Group, in Chapter Nine.

warned that if these problems were not resolved, it would be prevented from recruiting any further supply customers.

Increasingly, however, relative price per unit has become key. The Company now makes a three point price promise to consumers of its domestic electricity and gas supply, as it seeks to develop a critical mass in the domestic market. These promises are:

- ▶ that it's 'Dual Fuel' gas and electricity will be cheaper than British Gas Trading, on equivalent combined annual bills for both fuels together at average consumption (electricity average consumption 3,300 kWh, gas average consumption 19,000 kWh) until at least 01 January 2002;
- ▶ that this price promise is in comparison with generally available offers from British Gas Trading. It may not apply to special, temporary or restricted reductions; and
- ▶ that they will honour this promise either by general price levels, or by credit/or vouchers in respect to claims unless there is intervention in relation to the promise by any government regulatory or statutory body (Northern Electric and Gas, 2000b).

Clearly, Northern has identified British Gas as its principal competitor, and is seeking to adopt a cost focus strategy, or a segmented cost focus strategy in its pursuit of domestic customers in competition with British Gas. The Company is also making use of the internet as a means of extending the recruitment of customers to every home in the country. Northern has not formed an affinity agreement, in an attempt to differentiate itself. It has, however, established its own rewards scheme akin to the loyalty schemes in operation with large retailers.

In relation to business customers Northern has developed a responsive package of advice and consultancy to allow large consumers to maximise their energy efficiency as a means of differentiating themselves, a segmented benefit focus or a segmented utility focus. The Company claims to have been the first REC to offer service of this kind, and to have been doing so since 1994. The elements of the scheme, known as VECTA (Visual Electricity Consumption Targeting and Analysis), aimed at improving energy efficiency, providing tighter control of power budgets, and highlighting any wasted energy consumption. The scheme produces daily and monthly, easy-to-understand reports based on half-hourly electricity consumption data for each customer. The current scheme developed out of the Company's "Better Ideas for Business" (Northern Electric, 1993, p.6) programme, which the Company identified as being a key element in their success in the franchise electricity market.

In summary, therefore, Northern conforms to the sector norm in striving to provide low cost energy to consumers, the order qualifying requirement in supply, while seeking to differentiate the product offering, the order winning criteria. It pursues a different business strategy in the domestic and commercial segments of its markets, having a segmented cost focus approach in its domestic markets, and a segmented benefit focus, or segmented utility focus, in its commercial markets, as determined by the particular needs of the customer.

5.4 Yorkshire Electricity

Yorkshire Electricity is the REC for the county of Yorkshire and surrounding area in the north east of England. The Company's operating franchise covers an area of 10,700 square kilometres and includes all of the counties of West Yorkshire and Humberside, most of South Yorkshire, and parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. The Company's customer base is diverse, including declining traditional industries such as iron and steel, coal mining, textiles and engineering, as well as agricultural and domestic demand, and demand from the newer commercial and service sectors. Yorkshire was expected to be one of the more aggressive RECs, and from an early stage the Company had expressed the intention of pursuing a strategy of increasing its critical mass of supply customers (Sychrava, 1990e). Therefore, customer service was an issue of considerable importance. As with most of the RECs, the managers of Yorkshire were bullish about the potential offered by the new freedom they enjoyed to pursue related activities "building upon its existing strengths" (Kleinwort Benson, 1990, p.776), although they did not envisage nor intend to develop business opportunities in areas unrelated to the Company's traditional activities. Yorkshire is of primary interest as it was the first of the RECs to consider overseas activity as falling within this conception of being a core, related activity.

5.4.1 Key Events 1990-2000

Yorkshire expected all of their pre-privatisation business activities: distribution, supply, contracting and appliance retail, to continue to make contributions to the profitable operation of the Company, although distribution was once again expected to be the core business. They were also one of the RECs most keenly anticipating their participation in generation, and the first significant move taken by the Company occurred in 1989, when they explored the possibility of two generation projects with separate joint venture partners:

- ▶ a power plant to be build on South Humberside with Petrofina, Total Oil and Tractebel (Samuelson, 1989d); and

- ▶ a 120-240MW CHP plant with British Sugar at Brigg (Samuelson, 1989f).

Planning for both plants was undertaken by Yorkshire's New Ventures Division, which was established specifically to evaluate and plan new generation ventures. The Company also established very early on in the period a joint venture with Yorkshire Water, Yorkshire Windpower, to commission a windfarm to increase its self-generation portfolio (Hunt, 1990). Other key events that occurred early in the period included:

- ▶ becoming the first REC to diversify into cable TV, with a joint venture called SY Cablevision with partners Maseda Corp. and Pactel, justifying the business as being complementary to the main network management business (Samuelson, 1990b);
- ▶ an early cost reduction programme aimed at reducing controllable costs by 2% per year over a five year period, mainly through manpower reductions, one of the first such programmes in the sector (Sychrava, 1991f). The severity of this programme stepped up the following year as concern mounted at what it perceived to be the slow speed of cost reduction (Lascelles, 1992e);
- ▶ becoming one of the top three RECs in winning 1MW supply customers (Sychrava, 1991a);
- ▶ creating an holding company framework to encourage a competitive culture. The new framework would see an internal market pricing arrangement between the different arms of the group to encourage a competitive attitude in parts of the company usually shielded from the rigours of competition (Lascelles, 1992a) - Miles and Snow's (1992) Internal Network concept;
- ▶ establishing Yorkshire Total Gas subsidiary, in a joint venture with Total: the ninth REC to enter this market (Anon, 1992e);
- ▶ announcing the biggest price cuts for domestic users, from between 3.5-5.0% (Anon, 1993b);
- ▶ reportedly engaging in negotiations with Finnish city of Turku for acquisition of its electricity distribution and district heating businesses (Pearce, 1993);
- ▶ becoming the first REC to enter the telecommunications business when it took a stake in Ionica (Adonis, 1993b) in a joint venture with Robert Fleming and Ivory and Sime, later launching a joint venture with Kingston Communications, called Torch Communications (Holberton, 1996d);
- ▶ announcing a further restructuring of the Company to make its internal market work more effectively, with a further aim of maintaining the attack upon controllable costs (Smith, 1993f);
- ▶ seeking to establish a 20% shareholding in Stockholm Energi, the Swedish power group, and presenting the proposed transaction as a safe and appropriate use of

- core skills (Anon, 1994c): the later rejection of the bid was, as will be seen, the end of Yorkshire's interest in overseas activities for a time;
- ▶ purchasing a 6.83% stake in the Armada gas field, from Amerada Hess (Anon, 1994b); and
 - ▶ having its focus on cost reduction re-affirmed in 1994, with the establishment of a new cost reduction target of 1000 jobs by 1997 (Lascelles, 1994g).

Clearly, Yorkshire was a company that was extremely active in seeking new business opportunities which were related to its core businesses. It was perhaps the first of the RECs to view its core competence as being network management, enabling it to justify its move into cable television and telecommunications. Similarly, it was the first of the RECs to consider moving towards overseas operations. It was also one of the most active RECs in the early moves towards generation, although its innovative nature did not include gas where it was one of the latest movers.

However the related diversifications led to only limited success. In telecommunications, overseas activities and to a certain extent generation, there has been a scaling back of activity. Overseas activities were the first to be reduced, with the closure of its overseas division in 1995 (Smith, 1995c), followed shortly afterwards by the sale of Torch Telecommunications (Kuper, 1996), and a scaling back of its investment activity in generation. It also sold its retail interests (Hollinger, 1995c). The decision mirrors that of EME to attempt to refocus upon core activities, after diversification attempts proved to be less successful than had been anticipated. The Company's focus was now upon increasing the effectiveness of its distribution and supply businesses, without the distraction of other business activities, by further focussing upon cost management and customer service.

When the Company became the penultimate REC to be taken over (Holberton, 1997b), its new owners American Electric Power and PS Colorado announced that they believed they were buying a low-cost producer with an excellent record of customer service (Corrigan and Holberton, 1997). The new owners set about restructuring the Company, as discussed below. The result was a much more streamlined company with separate business units exercising much greater autonomy. The business was now centred upon the three core activities: distribution, electricity and gas supply, and generation, and each sought to contribute to the Group's overall performance.

Since the takeover, a number of key changes have occurred:

- ▶ In 1998, the Company signed a five year gas supply agreement with Conoco

- ▶ guaranteeing prices for its domestic gas customers (Yorkshire Electricity, 1998);
- ▶ In 1999, Yorkshire Electricity's Generation business was sold to PowerGen for £94.9 million. The move was made to allow the Company to concentrate on its core businesses of distributing and supplying electricity and gas;
- ▶ The Company has recently agreed to take part in an affinity programme with American Express (Yorkshire Electricity, 2000b); and
- ▶ The loss of 350 jobs in a 'stream-lining' of both the remaining core businesses resulting from the latest regulatory price review (Yorkshire Electricity, 2000a).

Clearly, Yorkshire's owners decision to focus upon the two core businesses reflects a desire to concentrate their resources upon extracting maximum profits from its regulated business, while building up critical mass within the competitive supply business. Its decision to leave all other areas of diversification reflects a return to its core business, which is becoming increasingly common within the sector.

5.4.2 Structure of Yorkshire Electricity

In this section, the management and organisational structures of Yorkshire Electricity are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure. At privatisation, the Executive Directors on the Main Board of Yorkshire Electricity were as follows:

Name	Position	Joined Yorkshire in	From
James Porteous	Chairman and Chief Executive	1984	Southern Electricity
John Tysoe	Group Managing Director	1985	Southern Electricity
Malcolm Chatwin	Group Commercial Director	1987	North of Scotland Hydro-Electric Board
Tony Coleman	Group Financial Director	1985	CEGB
Graham Hall	Divisional Director Energy Supply	1980	Southern Electricity

Once again, Yorkshire follows the pattern of entering the new era with a board comprised of managers from both an industry and an engineering or accounting background (Kleinwort Benson, 1990, p.765). It was a smaller board than average, reflecting perhaps the dual role performed by Porteous and the new group structure, although the effects of the group structure on the board became more apparent later, as by 1993 the Board had changed to reflect the new group structure. Porteous had retired, and been replaced by

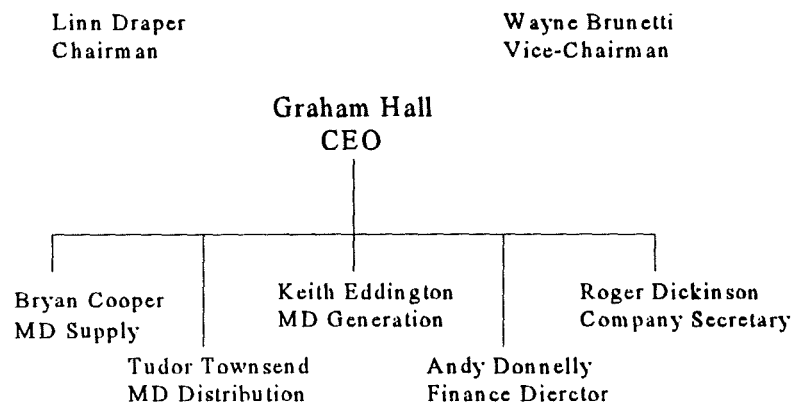
Tysoe as senior manager. However, in 1993, Tysoe became Non-Executive Chairman and Chatwin took on the post of CEO. Below him, Hall was redesignated Group Executive Director - Distribution, and Bryan Morgan promoted from within to the post of Group Executive Director - Supply. Coleman remained Finance Director (Yorkshire Electricity, 1993, p.4-5).

By 1995, Tysoe had retired and was replaced as Non-Executive Chairman by Christopher Hampson, a former Non-Executive Director (Yorkshire Electricity, 1995, p.4). Apart from this change the Board remained the same until the agreed takeover by American Electric Power (AEP) and Public Service Company of Colorado. Following the takeover the new owners replaced all of its non-executive directors. Linn Draper Jnr, President and Chief Executive of AEP, took over as chairman from Hampson. Wayne Brunetti of PS Colorado also joined the board, along with six non-executives - three from AEP and three from PS Colorado. Chatwin, Coleman, and Hall all remained in post (Taylor, 1997).

In late 1997, the Company undertook a major restructuring to prepare it for the impending development of competition in the industry. The Company was to restructure itself into three main divisions: distribution, supply and generation, which would each become "self sufficient businesses each headed by a Managing Director" (Yorkshire Electricity, 1997). The impact of this change upon the Group's management structure was significant. Chatwin and Coleman left the Company, and the new Group CEO was Hall, the existing Operations Director. Under Hall, the new management structure was as shown in Figure 5.2, with Cooper moving from his Group role to become MD of Supply, Townsend and Eddington similarly moving from their Divisional roles to become MD's of Distribution and Generation respectively, with Donnelly being promoted from Group Financial Controller. The appointments were confirmed by Yorkshire's owners through their representatives on the Yorkshire board Draper and Brunetti. Subsequently, Cooper was replaced by Bill Wilkinson as MD of Supply, and with the sale of Generation to PowerGen, Eddington left the board.

At the beginning of the privatisation process, Yorkshire operated a group structure with a focus upon the creation and operation of profit centres. The following explanation of the group structure comes from the Company's pathfinder prospectus: "Clearly defined group functions and divisional business units were established with the aim of reflecting the different types of business in which Yorkshire Electricity would be operating, and facilitating the development of any of these business as subsidiary companies where it would be beneficial to do so. Profit related objectives were introduced for each business unit and a system of transfer pricing was established" (Kleinwort Benson, 1990, p.765).

Figure 5.2: Yorkshire Electricity Management Structure, 1997



The Company operated five divisions based upon products and business activities, which were as follows:

- ▶ The Energy Supply Division: with responsibility for the planning, design, construction, operation and maintenance of the distribution system, together with energy sales and customer services such as meter reading, billing and collection;
- ▶ The Appliance Retailing Division: with responsibility for the Company's showrooms and for appliance repair;
- ▶ The Contracting Division: with responsibility for all electrical contracting work;
- ▶ The Business Services Division: with responsibility for IT, transport and other services; and
- ▶ The New Ventures Division: with responsibility for exploring potential new areas of business that the Company might pursue, such as generation, cable TV, telecommunications and gas.

Within this divisional system, managerial responsibility was arranged as follows: the overall management of the Company was undertaken by the Chairman and Chief Executive, together with the Managing Director and the three Executive Directors. "Activities which affect all of the business units are organised into four group functions. The Group Finance Department is responsible for the overall financial strategy of Yorkshire Electricity, relationships with major shareholders...together with corporate financial and management accounting and audit. The Group Commercial Department deals with electricity purchase contracts, tariffs, contracts for the sale of electricity and contracts for connections to and use of the distribution system, corporate planning and relations with the DGES. The Group Personnel Department provides personnel services

and has responsibility for industrial relations, training and staff development. Company secretariat provides a range of company secretarial services and undertakes legal, insurance and corporate communications activities" (Kleinwort Benson, 1990, p.766).

Clearly, the model employed by Yorkshire was very different to the functional or hybrid structures operated by other companies at the beginning of the period. The decision to operate upon a divisional basis was taken early, and the model developed here can perhaps be said to have been copied by other RECs over the next decade. However, Yorkshire have undertaken further amendments to this model, to improve its effectiveness and to deepen the commitment to the development of the internal market concept. In 1993, the core Electricity Supply business was re-designated the Systems Division, and within it two new departments: Network Engineering and Energy Management were established (Smith, 1993f). Each of these two new divisions worked on a contract basis for the Systems Division. Hall, as Executive Director for distribution, led all three of these businesses, as well as other businesses such as contracting, property, R&D, Procurement and Community Relations. His counterpart, Morgan, as Executive Director for supply led the Company's activities in electricity and gas supply, upstream gas, generation, IT, regulation and environmental issues (Yorkshire Electricity, 1995, p.4). This change marks an awareness of the differing demands facing both businesses, and the need for different cultures to develop in each.

As mentioned above, the change in ownership prompted a new organisational structure to be introduced, bringing a much more formal self-sufficiency to the management of each of the principal businesses (Yorkshire Electricity, 1997). The move reduced the role played by Head Office, leaving a corporate centre of only 30 people fitting the development of a holding company model. With the exception of the divestment of generation, this holding company structure persists.

5.4.3 Strategy Decisions at Yorkshire Electricity

Yorkshire, at the beginning of the period, was one of the RECs which adopted the widest definition of what constituted its core business. It was also one of the REC's which had signalled, through the development of its management structure, that it was seeking to become a recognisable 'business' from the very beginning. It therefore approached new opportunities with gusto. It is clear from the evidence presented in Section 5.5.1, that the Company operated a general concentrated growth approach throughout its operations, but in supply especially this approach was augmented by a variety of other corporate strategies. Generation was especially important for the Company. In seeking to become a low cost supplier, it required cheap wholesale energy, and its generation strategy was

based upon this objective. While it was relatively late into gas, it sought upon entry to become an integrated gas company, and develop the dual fuel approach in support of the concentrated growth strategy. The recent agreement with Conoco shows that the desire to manage risk in controllable costs of wholesale energy continues. Additionally, the Company was an aggressive market developer. In search of additional income streams, it was the first REC to enter telecoms and the first REC to seek to make extensive overseas investments that utilise its core capabilities.

However, the impact of the takeover and the redefinition of the Company's core businesses has left Yorkshire operating in only the two traditional areas: distribution and supply. The Company's relaunch in 1997 led to a clear statement from the new management team of the strategies of both of these businesses. These were that in:

- ▶ Distribution, the Company's aim was "to maintain and improve the reliability of the electricity network in Yorkshire and Humberside and seek growth opportunities"; and in
- ▶ Supply, the Company's aim was "to substantially grow the business in the nationally competitive gas and electricity markets through winning customers and by seeking marketing and strategic alliances with other organisations" (Yorkshire Electricity, 1997).

Therefore, in distribution the strategy was to continue to follow a concentrated growth approach, aiming to 'work the network' as effectively as ever. The reference to 'seeking growth opportunities' is interesting. For the income of distribution networks to grow, new demand needs to develop in an operating area. This suggests that Yorkshire intends to throw its weight behind any regional development programmes aimed at increasing employment opportunities in Yorkshire. It may also signal a desire to partner with other RECs, possibly by acquisition, to increase the size of the network, or to seek uses of the capabilities held by the networks business in other electricity markets.

In supply the emphasis is clearly upon market and product development, to grow critical mass in the converged electricity and gas markets. The reference to 'marketing and strategic alliances' explains the affinity agreement with American Express, and the agreement with Conoco for assured supplies of wholesale gas. It might also leave the way open for future purchases of, or alliances with, competitor companies.

In terms of competitive strategy, the Company as with all other RECs is left with few options. A low price offering is necessary to be competitive in the supply industry, and so differentiation is the key to developing a critical mass of customers. Yorkshire has

always been successful in developing its market, and was one of the first RECs prepared for competition in the domestic market. For its business customers, the Company provides a variety of consultancy services, and tools aimed at maximising energy consumption. These include a range of extensive and tailored energy reports, a half-hourly data service to enable a customer to map consumption levels, pool data showing the historical cost structure of wholesale energy prices, and a software package called EASE, which maps energy consumption within an organisation and allows an insight into exactly when and where energy is being consumed. This suggests a segmented utility approach, or a segmented utility focus approach in areas of particular interest to the Company. As is becoming clear, all suppliers need to provide added value services of this kind, alongside low cost supplies of gas and electricity in a highly competitive immature market which will see a degree of 'shakeout' in the medium to long term.

5.5 Analysis of Cases

This chapter set out to explore the strategic content of four of the twelve RECs, and to begin the process of understanding what drove the decisions resulting in the content identified. It also set out to comment upon the viability of the strategic combinations identified during this process. As stated in Section 5.0, the reporting of these observations will be undertaken in discrete sections, the first addressing Objective One of this research, the second Objective Two, while two further sections note additional observations made by the author, and some concluding remarks.

5.5.1 Observations: Objective One

In each of the cases presented above, the qualitative assessment of the content of the strategies of each of the RECs was recorded. This section presents a more formal description of the analysis, with reference to a series of matrices showing the distribution of evidence across the chosen analytical frameworks, for each of the case study companies. The findings are then interpreted to show patterns: combinations and relationships, between corporate, business and organisational strategy. As stated in Section 3.4.3.2.1, the author did not follow a strict process of content analysis. Rather, the data represented in Tables 5.4 to 5.7 are an interpretation of the findings.

Tables 5.4 to 5.7 present a summary of the key corporate and business strategies employed by the sub-sample during the period. The relative importance of each strategy to each company is shown, as indicated by the key accompanying each table. What is striking about the analysis are the similarities that can be identified, and these are summarised here. For the sub-sample:

- ▶ concentrated growth is the only suitable corporate strategy for distribution: this was perhaps to be expected, given the regulated nature of the industry. The question of business strategy is irrelevant here as the companies face no competition. None of these companies appear to have seriously considered the approach other RECs have sought in distribution; the pursuit of horizontal integration. However, Yorkshire has mentioned the need for this business to seek further growth, implying some form of market development, and Northern have made investments in this area;
- ▶ despite starting with different outlooks in relation to supply, each company has returned to approximately the same combination of corporate and business strategy. In each case the companies have adopted a cost leadership position *as a prerequisite* for competing within the industry, and have then tried to differentiate themselves by providing added value services. In Chrisman *et al*'s (1988) analysis, this represents at least a segmented utility strategy, as all companies seek to sell to both electricity and gas to both commercial and domestic customers, and in some cases a segmented utility focus, if a REC has targeted a particular neighbour's area within which it will seek market share. This clearly contradicts Porter's (1980) contention of being 'stuck-in-the-middle'. This differentiation takes the form of affinity programmes (Norweb and Tesco, Yorkshire and American Express), rebranding (Norweb Energi), dual fuel programmes (all of the companies), added value services for business (again, all of the companies), and green tariffs (Manweb, Yorkshire);
- ▶ beyond differentiating themselves in their home area, they often seek to adopt cost focus as a tactic in certain 'priority target area' - the segmented utility focus concept discussed above. Tables 5.2 and 5.3 show the regular tariff prices per kWh (p) and standing charges per quarter offered by each REC in its own and each others territory¹¹. Clearly, for example, all three companies are trying to take market share from Northern in its own area, although Norweb offers the better combination of tariff and standing charge if the customer is a low user, and Yorkshire if the customer is a high user. Inevitably, the suitability of one company's offer in relation to another for the consumer is unique.

11

For consistency, all data used for price comparison has been drawn from the Datamonitor pricing sheets for April 2000, available from OfGEM.

Table 5.2: Price Comparison

	MW	NW	NE	YE
MW	6.79	6.28	6.27	6.23
NW	5.80*	6.24	6.58	5.13
NE	6.16*	6.10	7.17	5.70
YE	6.06*	6.01	6.35	6.33

Table 5.3: Standing Charge Comparison

	MW	NW	NE	YE
MW	47.29	54.23	48.47	58.47
NW	60.63*	40.66	31.58	46.97
NE	56.95*	35.98	35.99	60.33
YE	41.77*	41.26	41.98	41.77

Notes: MW = Manweb, NW = Norweb, NE = Northern, YE = Yorkshire; * figures quoted are those of Manweb's parent company ScottishPower as Manweb brand not used outside of Manweb area.

However, clearly, some companies are using a cost focus approach to seek market share in certain operating areas. The companies have proved reluctant to reveal the size of their customer base in more than general terms. For instance, United Utilities states that it has 7 million customers but does not identify what these customers take from the multi-utility beyond saying that 325,000 of them buy gas from Norweb Gas. Clearly, with the industry in an immature phase, companies are keeping cards of this sort very close to their chests; and

- some companies have undertaken circuitous routes to get to the same place. Manweb announced a decision to focus upon Distribution and manage Supply effectively in 1989. Yorkshire have started and divested telecoms and generation business but are now left in the same industries as Manweb.

Overall, this sub-sample has seen some significant differences in strategic outlook, principally between Manweb and the rest. Manweb was always the most narrowly focussed REC, making a virtue out of adopting a core focus. In contrast, Norweb and Yorkshire were among the most innovative and exploratory of the RECs and among the industry leaders in gas, telecommunications and generation. Northern was more akin to Manweb, in that it followed a clear core focus although it sought to engage in backward integration and market development to support the core concentrated growth strategy. Takeovers have impacted upon all of the companies. Manweb has been left as a brand name for ScottishPower, but is still involved in pursuing the same corporate strategy in its core distribution business. Norweb has also been subsumed within another multi-utility and has effectively shared the same fate as Manweb. Yorkshire became the European arm of an international company, but it has also been reigned in and returned to a core focus. Only Northern, which is now part of a larger US based international group but which still remains in all of its former business activities, appears to have developed and become an extension of its former self.

Table 5.4: Content Analysis of Manweb

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓		✓ (contracting)
Market Development		✓ (100kW)		
Product Development		✓ (green tariffs)		
Innovation			✓ (sustainable)	
Horizontal Integration				
Vertical Integration				
Concentric diversification		✓✓✓ (gas)		✓ (metering)
Conglomerate Diversification				
Turnaround				

Table 5.5: Content Analysis of Norweb/United Utilities

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓ (retail)
Market Development		✓✓✓		✓✓✓ (retail)
Product Development		✓ (dual fuel)		
Innovation		✓ (Affinity)	✓ (overseas)	✓ (telecoms)
Horizontal Integration				✓✓✓ (retail)
Vertical Integration		✓✓✓ (generation, power purchasing)		
Concentric diversification		✓✓✓ (gas)	✓ (overseas)	✓ (metering, telecoms)
Conglomerate Diversification				
Turnaround	1996 (takeover) & 1997 (refocus)			

Table 5.4: Continued

Divestment				✓ (retail)
Liquidisation				
Joint Venture		✓ (Alliance Gas)		
Strategic Alliances	# (considered with Welsh Water)			
Consortia				
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	Segmented Benefit Focus	N/A	Segmented Cost Focus

Key

- ✓ Evidence (where company has engaged in activity of this kind)
 ✓✓✓ Priority (where company has been heavily engaged in activity of this kind)
 # (Where company has considered activity of this kind, but not acted upon this interest)

Table 5.5: Continued

Divestment		✓ (Norweb Energi)	✓ (generation, overseas)	✓✓ (retail, other NWW businesses)
Liquidisation				
Joint Venture		✓ (Northern Gas)	✓✓✓ (various generation)	✓ (telecoms)
Strategic Alliances	Some			
Consortia	Numerous			
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	N/A (but formerly Segmented Utility)	N/A	N/A (but formerly Segmented Cost)

Table 5.6: Content Analysis of Northern

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development	✓ (regional development)	✓✓✓ (1MW, 100kW, domestic, NI and overseas)	✓ (overseas)	✓ (contracting and retail)
Product Development		✓ (dual fuel)		
Innovation		✓ (Down stream gas)		✓ (telecoms)
Horizontal Integration		# (London)		
Vertical Integration		✓✓✓ (generation, energy purchasing)	✓✓✓ (down stream gas assets)	
Concentric diversification		✓✓✓ (gas)		✓ (telecoms, IT)
Conglomerate Diversification				
Turnaround				

Table 5.7: Content Analysis of Yorkshire

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development	✓ (regional development and overseas)	✓✓✓		
Product Development		✓ (affinity)	✓ (windpower)	
Innovation				
Horizontal Integration				
Vertical Integration		✓✓ (upstream gas)	✓✓ (upstream gas)	
Concentric diversification	✓ (overseas)	✓ (gas, overseas)		✓ (telecom, Cable TV)
Conglomerate Diversification				
Turnaround	1995, 1998			

Table 5.6 Continued

Divestment				
Liquidisation				
Joint Venture		✓ (Down stream gas)	✓✓✓ (including Teeside Power)	✓ (Ionica)
Strategic Alliances				
Consortia				
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	Segmented Utility Approach in commercial, segmented cost focus in domestic	Cost Leadership	Cost Leadership

Key

- ✓ Evidence (where company has engaged in activity of this kind)
 ✓✓✓ Priority (where company has been heavily engaged in activity of this kind)
 # (Where company has considered activity of this kind, but not acted upon this interest)

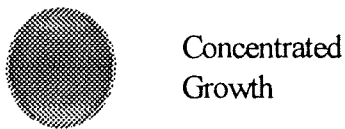
Table 5.7: Continued

Divestment			✓ (to PowerGen)	✓ (retail)
Liquidisation				
Joint Venture		✓ (gas)	✓✓	✓✓✓ (telecom, Cable TV)
Strategic Alliances				
Consortia				
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	Segmented Utility	N/A	N/A

5.5.1.1 Combinations of Grand Strategy

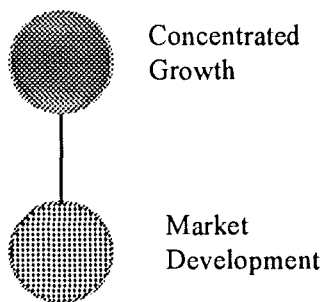
The following section presents diagrammatical representations of the strategic combinations of corporate and business level strategies, identified from within this sub-sample. This activity follows on from the analysis presented in Section 2.6.3. There are inevitably some instances when RECs share the same pattern of combination, especially in their distribution businesses. Common patterns will therefore be labelled as per Figure 2.6 of Section 2.6.3, and referred to as such.

Variant 1: Concentrated Growth



(i) Manweb adopts the basic concentrated growth approach: Variant 1, which sees no combination at all. This variant is also employed by the Norweb distribution business.

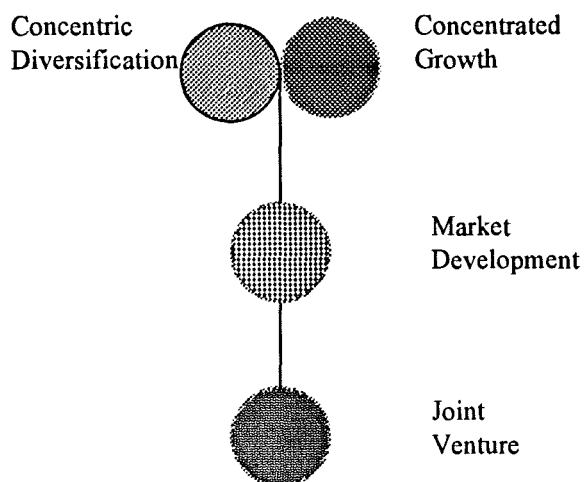
Variant 2: Organic Market Development



(ii) Both Northern and Yorkshire employ a slightly more advanced concentrated growth approach: designated Variant 2, an organic market development approach in Section 2.6.3. This market development takes the form of participation in regional development activity, which is arguably the only form of organic market development approach that can be attempted in the distribution industry.

The combinations identified in relation to distribution, therefore, show the limitations available to the companies. In reality, only one further variant could be added to the two presented above, Variant 1C, which shows horizontal integration and which will be witnessed in Chapter Seven in relation to London and Eastern's joint venture. As stated frequently throughout the chapter, these companies do not have business strategies associated to their corporate strategy combinations, as their operations are natural monopolies. All companies pursue a cost management approach in distribution.

Variant 3A: External Market Development

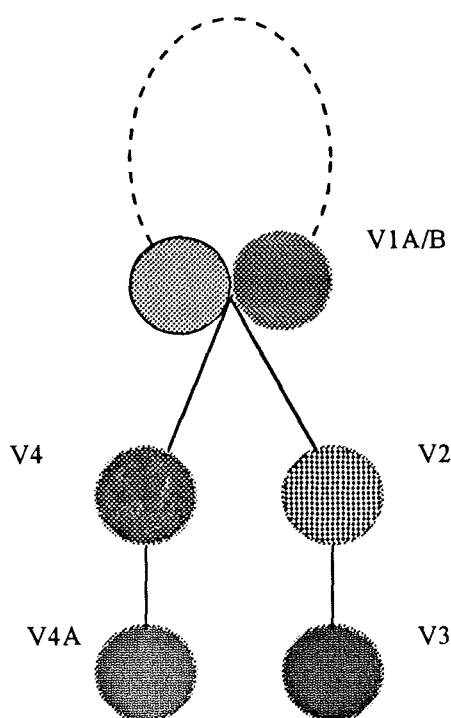


(iii) Manweb develops an extended market development approach, including concentric diversification, designated Variant 3A. This indicates that (i) the company has moved into the convergent gas industry and (ii) that a combination of organic: electricity and gas, and external: gas, through its Alliance Gas joint venture, market development is evident. Within this combination a segmented utility focus business strategy is employed, which may be focussed on particular target groups.

The combinations operated in supply show the more complex nature of the activity, reflecting the impact of competition. Companies have attempted relatively similar approaches, in the case of companies following Variant 5A, to develop a competitive position in the industry through whatever means are available. Variant 5A shows that all companies still involved in supply: (i) engage in both gas and electricity supply, (ii) have sought some form of backward integration, either through owning generation assets, signing long term wholesale contracts with generators, and/or having access to down stream gas reserves, (iii) have undertaken wide ranging internal and organic market development, including membership of joint ventures, and (iv) have engaged in product development. The exception to the use of this approach is Manweb, which has sought a more conservative and limited approach, reflecting its position as a subsidiary of ScottishPower.

In all of the cases, the RECs are following segmented utility business strategies. This uniformity has resulted from the fact that (i) cost is a key issue to competitors, but (ii) added value services are also important. Customers are looking for added value, at a competitive price and hence the utility approach. It is a segmented approach, because all of the companies are seeking to reach both commercial and domestic markets, leading to variations in the service and prices offered. Some companies may also operate segmented utility focus approaches in particular target areas where they are seeking market share.

Variant 5A: Multiple Combination



(iv) Norweb presented (before its sale to Eastern Group) a highly complex multiple approach, which includes elements of all four possible variants identified earlier.

The combination includes:

(1) an external concentrated growth approach, through backward integration (gas and generation), and concentric diversification into gas;

(2) organic market development;

(3) external market development through joint venture; and

(4) a product development approach, featuring innovation (in Norweb's case, dual fuel offerings and affinity programmes).

This variant is followed very closely by Northern and Yorkshire.

In each case, the business strategy followed is a segmented utility approach, as discussed above with reference to Manweb.

All of the above combinations are viable, as discussed in Objective One. The more complex supply strategy combinations may only be viable in the short run, however, if critical mass is not achieved. As stated previously, the supply industry is still relatively immature, and there will be substantial changes over time.

5.5.2 Observations: Objective Two

As stated in Section 5.0, a collection of key drivers of strategy were identified in Section 2.2.3, and evidence of their significance will be sought throughout this research. To begin this process, an initial assessment of the relative importance of each driver has been prepared, based upon the preceding analysis, and is presented at Table 5.8.

Table 5.8: Impact of Possible Strategy Drivers

	External Factors	Internal Factors	Leadership	Regulatory
Manweb	✓	✓	✓✓✓	✓✓✓
Norweb	✓✓✓	✓✓✓	✓✓✓	✓✓
Northern	✓✓	✓✓✓	✓✓	✓✓
Yorkshire	✓✓	✓	✓✓	✓✓

The above analysis is subjective; with the author estimating the impact of the respective drivers based upon the outcome of the content analysis and indicating a higher suspected impact by a higher number of ✓'s, and reflects the difficulty of interpreting causal relationships from secondary source data. Consequently, the data presented here should be viewed as a tentative analysis, and requires further consideration in the light of the case studies presented later in the research. Allowing for the tentative nature of the analysis, the following observations are drawn:

- ▶ the key drivers of Manweb's approach were (i) its leadership and (ii) the regulatory environment. Manweb's strategy was a product of its leadership's early decision to focus upon its core distribution business. Having made that decision, the regulatory environment was clearly another key factor. Internal and external drivers were of some importance, but clearly not as important as if a more expansive approach had been adopted;
- ▶ the key driver of Norweb's approach was its leadership. External and internal factors were also vital, but both were largely subordinate to the leadership of the Company which drove the strategic outlook. Inevitably, the resources of the Company and the behaviour of competitors influenced the ability of the Company to achieve its objectives, but they were led by the impact of the leaders. Regulation is still important, but less so than if the Company only had regulated income to rely upon;
- ▶ the key drivers of Northern's early strategy were an even combination of all four, with no one area predominating. This reflects the Company's decision to pursue its strategy across all possible sectors of the industry, both existing and new, core and non-core. At around 1995, the importance of the Regulator became the key influence, but latterly following its takeover and new focus, the influence of its internal resources are crucial; and
- ▶ the key drivers of Yorkshire's early strategy were very similar to those of Northern, an even combination of all four with no one area predominating. Once again, a change in ownership has seen a change in emphasis and the decrease in activity in un-regulated areas has seen the rise in importance of the regulator in driving Yorkshire's strategy.

Clearly, therefore, the following summary can be made. The companies of the sample will inevitably be influenced by the actions of the Regulator while they remain in the monopoly distribution industry. However, that influence will be incrementally reduced as the company's dependence upon monopoly profits diminishes. Therefore, as its competitive actions increase, other factors come into play, and in particular the influence of the market. Leadership is seen as vital, especially in situations where companies have sought

to develop strong streams of unregulated income. It is possible to estimate that resources are also vital in such circumstances, but any definitive statement on their importance will require deeper scrutiny, and therefore must await the case study chapters.

5.5.2.1 *The Question of Leadership*

As noted in Section 5.5.2, the author believes that an assessment of the impact of leadership on strategy is best left for consideration in the case study chapters. However, it is possible to inform that debate by considering some of the evidence presented in these cases, in relation to the composition of main boards, and the proximity of changes in main board composition and major changes in organisational direction. With this in mind, the following can be observed.

As the analysis has shown, at the time of privatisation all of the companies of this sub-sample predominantly drew their senior managers from the ESI. The exception was the Chairman and CEO of Northern, who was an industry outsider but who had only been in post for less than one year at the time of privatisation. Throughout this period there were changes to the dominant coalitions of each Company, but not substantially so until the various takeover's occurred. For Manweb and Norweb, takeovers saw them become subsidiaries of larger concerns and managed by functional level rather than board level managers. For Northern and Yorkshire, who both have US owners, the experience was slightly different for while they too lost independence they have retained recognisable organisational identities. The tendency within both companies has been for US managers to assume senior (*ie* chairmanships) rather than executive level posts. The similarity of management teams at the beginning of the period can not explain differing strategic outlooks. This suggests that an industry background is not a particularly important element in strategic decision making. This sub-sample does provide a useful further test of the influence of leadership as one pair of companies are part of UK based multi-utilities, and the other pair are part of US lead international group's. This aspect will be returned to in the summary in Chapter Eight. In addition, the question of changing roles in main boards will be addressed, and its significance to the question of the nature of the companies considered.

5.5.3 Other Observations

Inevitably, the analysis conducted above has produced a number of other key observations which sit outside of the two main objectives of this stage of the research. One such area is the impact of structure, and its relationship to decision making. As Table 5.9 shows, there was some similarity between the structures of three of the RECs in this sub-sample, with Manweb, Northern and Yorkshire all operating product-focussed divisional

structures under a head office and alongside a regional network. Of these three, Yorkshire had moved the furthest towards a structure which formally separated the key businesses within the Company. Norweb operated a functional structure. Inevitably, divisional structures have become more prevalent, although Northern and Yorkshire's

Table 5.9: Structural Matrix

	Manweb	Norweb	Northern Electric	Yorkshire Electric
Initial Structure	A Product Focussed Divisional Structure, with Leadership from Head Office	Functionally Structured Organization with Geographically Oriented-Divisions	A Product Focussed Divisional Structure, with Leadership from Head Office and a Regional Network	A Product Focussed Divisional Structure, with Leadership from Head Office and a Regional Network
Current Structure	A Geographic Subsidiary within a Divisional Structure	Separate Businesses within a Product Focussed Divisional Structure	A Product Focussed Divisional Structure, with Leadership from USA	A Holding Company Model with Autonomous Business Units
Major Changes (dates/changes)	Takeover by ScottishPower (1995)	Takeover by North West Water (1995)	Takeover by CalEnergy (1996)	Moved towards a holding company structure based around an internal marketplace (1992), but became true holding company after 1997

structure's are now more akin to holding company structures reflecting the preferences of their new owners. Once again, Manweb and Norweb have tended to be reduced to operational units within a larger group structure. Norweb was the most aggressive yet centrally managed of this sub-sample, suggesting that structure was not a major element. This analysis does, however, suggest that different structural alignments are emerging. The question that needs to be addressed as a consequence is whether some companies are retaining recognisably utility-like structures, while others are moving towards organisational and managerial structures which are more akin to those of traditional businesses. This issue will be returned to in Section 8.4.

In respect of other key issues that emerged from Chapter Two, it is clear that a strategy as pattern approach, with responsibility for the detail of strategy being devolved to operational and functional managers, has become more widespread as the divisional impetus described above has deepened. Similarly, strategy process appear to have become more emergent as autonomy for decision making has been spread wider.

5.5.4 Concluding Remarks

This chapter has suggested that at the beginning of the privatisation period, companies from this sub-sample did identify a series of different strategic approaches and set out to pursue them. These varied from Manweb's narrowly focussed niche approach, to Norweb's more aggressive and widely focussed approach. The evidence provided suggests that the composition of the dominant coalition, the structures developed and indeed the local area did not play a significant part in the decision of which direction the company took. This suggests that the dynamics within the main board itself are of more importance, with managers like Harvey at Norweb driving their company's strategy based upon their own perceptions of opportunity. This assessment of the initial impetus of strategic decision making will be assessed in relation to the other sub-samples, and explored in greater depth in the case studies presented in Chapter's Nine, Ten and Eleven.

What has become clear, however, is that external factors have played a significant part in the development of company strategy after the initial period. This chapter has shown that strategies have been impacted upon by such external elements as new owners, the Regulator, and the City of London, as well as competitors and customers. Of these, a surprising and arguably disproportionate impact has been in evidence from the City of London who certainly undermined the otherwise apparently sound strategy adopted by Manweb, while supporting the strategic activities of Norweb against popularly held conceptions of how utility stocks should behave. The impact of new owners is predictably identified as being significant, and the future direction of all of the companies studied here has been shaped by the identity and ambition of their new owners. Overall, therefore, there is little evidence of companies adopting identical approaches, although there is clear evidence of the emergence of a number of archetypical generic responses in core areas. The author believes that while tactical differences remain, the companies are reaching a consensus as to the main strategic options available to them. The identity and impact of these trends will be explored in greater depth in the analysis to be presented in Chapter Eight.

6.0 Introduction

This chapter continues the work begun in Chapter Five, with respect to the reporting of the preliminary stage of the research. In a similar fashion, the aims and objectives of this chapter are concurrent with those identified for Chapter Five, in Section 5.0, as are the frameworks of analysis and reporting utilised in this chapter.

This chapter does diverge slightly from the pattern established in Chapter Five, and continued in Chapter Seven, in that it presents an analysis of two of the four sub-samples of RECs, as identified in Section 3.4.2: the Midlands RECs, and the Agricultural RECs. This decision was primarily expedient, to bring this chapter into line with Chapter's Five and Seven, which both feature four case studies. Both of the sub-samples presented here have, however, been analysed separately at the conclusion of this chapter, in Section's 6.5.1: Midlands RECs, and Section 6.5.5: Agricultural RECs. The determination of the composition of each sub-sample occurred as follows:

The Midlands sub-sample includes two of the RECs: East Midlands Electricity (Section 6.1) and Midlands Electricity (6.2). In characterising the companies of this sub-group, Holmes noted the following as being key similarities within the markets that each of these companies served:

- ▶ that demand was fairly evenly spread between domestic, industrial and commercial sectors; and
- ▶ that following a period of economic instability resulting from the decline of the automobile industry, industrial activity was stabilising and probably reviving (Holmes, 1992, p.56).

Holmes therefore implies that the companies of this sub-sample would probably be facing a less arduous task than the RECs from the industrial north, in the new competitive environment. Demand had already stabilized following a structural realignment, and prospects were at least favourable. At the initial stage of electricity supply competition the threat to these RECs would probably be lesser than the Northern RECs considered in Chapter Five, as fewer large industrial customers operated from this region. Domestic consumers would also be expected to be more affluent.

The Agricultural RECs includes two of the RECs: SWALEC (Section 6.3) and SWEB (Section 6.4). In characterising the companies of this sub-group, Holmes noted the following as being key similarities between the companies and the markets they served:

- ▶ that they were mainly rural areas;
- ▶ there was limited heavy industrial demand as the coal mining industry in South Wales was in decline;
- ▶ that both of the areas experienced widely dispersed populations; and
- ▶ that there was a heavy reliance upon domestic and light industrial demand (Holmes, 1992, p.56).

Holmes therefore implies that the companies of this sub-sample were facing an uncertain future in the new era of privatisation, although that uncertainty took a slightly different form from that experienced in the companies of Chapter Five. Demand was relatively low, there being few large consumers, and the lack of population density brought extra costs to the companies distribution businesses. Therefore while the threat of lost supply demand was lower than elsewhere, the cost burden of the distribution network was higher, which could affect comparative performance. There was also uncertainty about the relative affluence of the domestic consumers. There was, from an early stage, a desire shared by these companies to be regarded as special cases by the Regulator.

6.1 East Midlands Electricity (EME)

EME is the REC for the East Midlands area of England. The Company's operating franchise covered an area of 16,000 square kilometres and included all of the counties of Derbyshire, Leicestershire, Northamptonshire and Nottinghamshire, as well as parts of Warwickshire, Buckinghamshire, the West Midlands, Staffordshire, Bedfordshire, Cambridgeshire, South Yorkshire and Oxfordshire within its boundaries. The composition of customer types within EME's operational area was diverse, with high numbers of domestic customers, as well as a large industrial and commercial base. In the last twenty years financial services, distribution and construction have increased in importance whilst coal mining has declined. The Company is headquartered in Nottingham. EME is of particular interest as it was perceived to be the REC most keenly anticipating the advent of privatisation. The Company was relishing the prospect of privatisation with an "almost indecent zeal" (Tomkins, 1988), reflecting the "new challenges and opportunities" (Kleinwort Benson, 1990, p.220) available to it. The preparatory work that EME had undertaken prior to privatisation had marked it out as a 'pioneer'. In areas such as customer service EME was recognised as leading the industry and the guarantees of service quality that it provided to its customers in as early as 1985 (when the concept of

privatisation of the ESI was as yet unformed) heavily influenced the thinking and actions of the Regulator when the statutory guarantees of service quality were written into the privatisation white paper (Tomkins, 1988). The Company introduced guarantees covering meter positioning, fixing, changing and special readings, appliance deliveries and electrical installation, as well as the original guarantee to respond to customers' requests for repairs within three working days, or waive the labour charge (Carrington, 1988, p.30).

6.1.1 Key Events: 1990-2000

As reported in Section 6.1, EME was perhaps the REC most keenly anticipating the advent of privatisation, and as a consequence of the arrival of the freedom and opportunity privatisation brought, it was also the most active company at this early stage. It is perhaps instructive at this point to indicate EME's stated strategic objectives, to provide the background to the key events that have unfolded over the last decade. In the issue prospectus, EME identified its principal strategic objectives as being to build upon its past achievements by: (a) achieving growth in operating profits from its distribution business; (b) continuing to offer prices that are competitive and profitable in the hope of enhancing profits from its supply business; (c) engaging in generation activities to release new sources of profits in the medium and long term; and (d) examining potential areas of development in all business areas (Kleinwort Benson, 1990, p.220). In pursuit of these objectives EME began the period with a series of aggressive moves in the areas of concentric and conglomerate diversification, with the aim of developing streams of unregulated earnings.

Consequently, EME was:

- ▶ the first REC to apply for planning permission for its own gas-fired power station, with its involvement with the Corby Power joint venture with Hawker Siddeley, followed by involvement in a variety of other self generation projects, such as Bilstrophe and Leicester (Samuelson, 1989a);
- ▶ one of the first RECs to express this involvement in generation in terms of a strategy based upon self-generation of 15% of its total energy supply - the maximum allowed by the Regulator (Samuelson, 1989a);
- ▶ one of the most aggressive RECs in the area of market development, making EME one of the top three most successful RECs in winning customers from other RECs in the newly competitive IMW end of the supply market (Sychrava, 1991a);
- ▶ the first REC to issue a long term bond, raising £150 million on the international bond market;
- ▶ engaged in a variety of unrelated divestment projects, such as the purchase of Ambassador Security (Gourlay, 1991), where the rationale behind the purchase

was the view that security would fit into the Company's new Electrical Engineering Division, the establishment of which was itself designed to "develop businesses supplying services to buildings including data communications, mechanical and electrical contracting" (Gourlay, 1991). The Company did not view the investment in organisations such as Ambassador Security as unrelated diversification, but rather saw it as being related. However, the author suggests that to do so is evidence of a fairly 'loose' interpretation of what should be considered their core competencies. This point will be explored below;

- ▶ engaged in early actions to increase and strengthen some of the more peripheral areas of its existing activities such as contracting, when it purchased Thomas Robinson Group's contracting business in 1991 (Fuller and Sychrava, 1991). This purchase was rationalised as an attempt to create critical mass in this business with the aim of making EME one of the top ten electrical contractors in the country, and providing the Company with the potential to expand into building design and maintenance, which they believed would include the planning and installation of communications, heating and cooling systems (Fuller and Sychrava, 1991); and
- ▶ was one of the first RECs to apply to the DTI for a licence to supply regional customers with a range of telecommunications services (Smith, 1992), with the ultimate aim of generating up to 30% of its income from non-core businesses by the end of the decade (Sychrava, 1991e).

At the end of its first reporting year, EME disclosed that it had spent £40 million on acquisitions, resulting in significantly higher gearing than the other RECs. Some of these investments, as discussed, were in areas that were either unrelated to, or only marginally related to, EME's core business. Throughout the early stages of EME's development, when the Company was expanding rapidly there were considerable misgivings on the part of city institutions as to the veracity of the strategy. The City expected RECs and other utility stocks to be dull and predictable. Hence the activities of EME, despite a successful first year in terms of profitability, were causing concern. The City contrasted EME's approach with those of other RECs who were aiming principally to manage their core businesses more effectively, and were consequently uncertain if EME's approach was the right recipe. The EME share price, as a result, lagged behind the rest of the industry with the Company achieving the lowest ranking at the 1993 interim profits stage (Smith, 1993g). EME's poor stock market performance was contrasted to the 'superior' performance of companies like Manweb, which had eschewed diversification for a clearly focussed strategy based upon distribution. EME's customers were also reported to be suffering some of the highest levels of service failure rates (Lascelles, 1993d).

This position was felt to be unsustainable, and lead to a "fundamental realignment" of the company, according to new Non-Executive Director of EME, Rudd (EME, 1994, p.2), with CEO Harris replaced by Askew, and a major internal review of corporate strategy. As a consequence of the review, EME initiated a turnaround strategy aimed at improving the fortunes of the Company by refocusing upon its original mission, which identified that the Company's prospects were likely to be "largely dependent upon the success of its distribution business, which itself will benefit from the development of the supply business" (Kleinwort Benson, 1990, p.220). This involved a wide ranging divestment of loss making or ill fitting enterprises. This new approach saw, between 1993 and 1996 the following business decisions:

- ▶ 300 jobs cut in 1993, rising to 700 in 1994 (Smith, 1993c);
- ▶ the reduction and rationalisation of corporate headquarters;
- ▶ EME split into three divisions, in an attempt to focus upon the core business activities with a particular emphasis upon cost control and innovation *within* the core businesses (Lascelles, 1995b);
- ▶ the consolidation of organisational structure with a shift of focus to cost centres from the regional structure the company formerly maintained;
- ▶ three of the six contracting companies closed down while others, such as WJ Furse, were sold (EME, 1996, p.7);
- ▶ the sale of Ambassador security (Hollinger, 1995d);
- ▶ EME's exit from retailing by selling its retail joint venture with Yorkshire Electricity, Homepower Retail, to PowerStore Trading (Martinson, 1996e); and
- ▶ the decision to take an exceptional loss of £130 million in its 1994 annual report to cover the losses incurred by the previous strategy.

After these actions EME was focussed upon its core business activities, with an emphasis placed upon their effective management. The refocusing and restructuring of the company resulted in an increase in operating profits of 13.7% in 1995 "primarily as a result of sustained cost control and the elimination of losses" (Rudd, in EME, 1995, p.2). The turnaround of the company also reestablished EME as a company favoured by the City, which developed a high regard for the new management team.

One aspect of the changed approach of the new management team at EME was a commitment to a continual search for improvement. Hence, the 1994 restructuring of the Company was followed by a further restructuring in March 1996 as it for the introduction of domestic competition in 1998. The main focus of the restructuring was the need to build customer service, lower prices, and to release value to shareholders. Within the new structure of EME the following separate business units were established:-

- ▶ Network Management and Development;
- ▶ Metering;
- ▶ Construction; and
- ▶ Supply.

The intention of the restructuring was to enable "management to monitor costs more closely and expose cross subsidies" (Holberton, 1996k). Another feature of the new structure was that EME spent £2 million on a new customer service centre. This was identified as a defensive ploy to protect existing customers in a competitive domestic market but could also be seen as an attempt to recover the ground that the Company had lost since 1989. It also reflected the fact that the 1996 review of the RECs by the Regulator showed EME to be the worse performing REC, on the basis of customer complaints.

The outcome of the continuing restructuring of EME was a complete reversal of the perception of the Company, reflected in analysis from HSBC James Capel which stated that EME had one of the best management teams of all of the RECs, which now managed its business for cash, and which 'don't get carried away on diversifications' (Holberton, 1996k). Rudd, in closing his 1996 Chairman's Statement, recommitted EME to developing its core business in the increasingly competitive market, restated the view that the restructuring of the Company would allow each of the businesses to concentrate upon the challenges and opportunities that faced them, and achieve the continuing aim of excellent customer service, and high share holder value (Rudd, in EME, 1996, p.3).

EME was not to remain an independent company for much longer. The wave of takeovers which swept the industry after the expiration of the government's golden share in 1995 reached EME in November 1996 when Dominion Resources of Richmond, Virginia entered into an agreed takeover valuing EME at £1.3 Billion (US\$2.2 Billion). Dominion is a holding company, which owns Virginia Power and North Carolina Power. The company serves more than 1.9 million customers in North Carolina and West Virginia.

The purchase of East Midlands was intended to contribute to a strategy that saw Dominion "well positioned for growth in an era that finds many of *(their US)* industry peers wringing their hands about the onset of competition in the electricity industry" (Dominion Resources, 1996, p.2). The purchase of East Midlands contributed towards an ongoing process of diversification into related areas, principally involving 'revenue-producing assets', adding to Dominion's earnings. One way in which Dominion foresaw

the potential for income growth, was through the opportunity East Midlands' 2.3 million customers offered them for market development in areas in which they had existing experience, such as gas and financial services. The key to the East Midlands takeover was its revenue raising potential. The CEO of Dominion explained that in any transaction "if we can't get it at a price at which we can expect to make money, we don't buy it" (Capps, in Dominion Resources, 1996, p.4). The Company required, as a condition of overseas operation, stable governments, clear enforceable laws, and regulatory systems that encourage low cost growth opportunities. However, Dominion's involvement in the UK industry was to be short lived.

The sale of EME to PowerGen was announced in June 1998. PowerGen agreed to purchase EME for £1.9 billion (US\$3.2 billion). The decision to accept the offer was explained by Dominion as being a "full and fair valuation of East Midlands" (Dominion Resources, 1998), which would enable it to re-deploy the funds into other projects closer to home. The deal brought Dominion a profit of around \$650 million post-tax. It also relieved Dominion of the onerous task of completely the financing of the deal, which had seen the Company having to take on a very substantial degree of debt.

Aside from the dual incentives of making profit and avoiding debt, a statement from Capps perhaps indicates the principal reason for the short lived nature of his Company's involvement with EME. Since the acquisition, Capps noted that Dominion had "been seeking to expand through mergers with other distribution companies, or other combinations. We thought that economies of scale were important. We made several enquires and contacts. We've been frustrated in our ability to grow our assets in the UK. When you can't grow, you're better off taking out the capital and re-deploying it into assets that you can grow. A full and fair offer turns out to be a better alternative" (Dominion Resources, 1998). This statement would seem to indicate that strategically EME under Dominion were seeking to explore strategic alliances in order to continue the concentrated growth approach determined under the former regime. The failure of this policy left EME in a very similar operational, structural and strategic position to that which had prevailed prior to the takeover. Two notable changes were that Dominion retains its 80% share in Corby Power¹, while Askew stayed on at Dominion as Executive Vice President, and was later appointed President and Chief Executive Officer of Virginia Power, one of Dominion's principal subsidiaries.

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PowerGen was forced to divest itself of some of its generating capability to purchase EME, so buying further generating capability was a second order concern for the company.

PowerGen's strategy in purchasing EME was intended to advance its aim of becoming one of the major world energy companies. The purchase turned PowerGen's UK operations into a vertically integrated electricity and gas business featuring:

- ▶ electricity production, including fuel purchasing and trading and combined heat and power;
- ▶ electricity and gas trading;
- ▶ electricity distribution and gas transportation; and
- ▶ selling electricity and gas to domestic, industrial and commercial customers.

(from PowerGen's Annual Report 1998 Operating Review)

EME therefore lends its experience and market presence in each of the above businesses, and provides PowerGen's only presence in the area of electricity distribution. Purchasing this aspect of EME's activities is the final link in PowerGen's energy chain. As for the strategy that EME as a subsidiary of PowerGen would pursue, a continuation of the core business cost leadership and concentrated growth approach appears to be the aim. This process of seeking continual improvement has prompted several new developments. Firstly, PowerGen has undertaken a benchmarking exercise to determine 'world's best practice' in electricity distribution. As a consequence, EME's distribution activities have been divided into two business groups: firstly, a distribution services group consisting of the service businesses of construction and metering, as well as EME'S remaining contracting business. Secondly, a networks group consisting of the core asset management business responsible for the operation of the distribution network (PowerGen, 1998).

Other activities aimed at improving the effectiveness of the distribution activity are planned. These include:-

- ▶ rationalisation of management activities into a single site;
- ▶ reduction of the scale and number of field depots;
- ▶ provision of associated essential information technology project infrastructures;
- ▶ introduction of third party competitive service providers into the business; and
- ▶ an initiative to standardise all plant, equipment and procedures.

(From the PowerGen 1998 Operating Review)

Overall, PowerGen is aiming to integrate EME's activities into its wider UK business where possible. Areas such as distribution, which can not be integrated, will be run under a strict concentrated growth approach. The EME brand of electricity and gas will only remain in its own area, or areas where it has traditionally made an impact. In all other areas it will be replaced by the PowerGen brand.

6.1.2 Structure of EME

In this section, the management and organisational structures of EME are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure up until the takeover by PowerGen. At privatisation, the executive directors on the Main Board of EME were as follows:

Name	Position	Joined EME in	From
John Harris	Chairman and Chief Executive	1982	Norweb
Dan Cowe	Managing Director	1985	Southern
Michael Carus	Finance Director	1977	Severn Trent Water
Philip Champ	Corporate Development Director	1987	Jordanian Electricity Authority
Keith Jackson	Marketing Director	1989	North of Scotland Hydro-Electric Board
Keith Stanyard	Technical and Operations Director	1960	ESI

All of the initial executive director's, with the exception of the accountant Carus were chartered engineers, and all had significant or exclusive experience of the ESI (Kleinwort Benson, 1990, p.236-237). The board remained the same until 1992 when a number of changes occurred. Cowe retired, to be replaced by Norman Askew who joined EME from TI Group. Askew had no prior experience of the ESI. Additionally Jackson retired, and Champ stepped down from the board to assume a new role within EME managing its generation and overseas activities (EME, 1993, p.3). The other senior manager joining the board at this time was Jim Keohane, who had a wide experience of the ESI, and was an internal promotion. He became Commercial Director.

Further changes occurred in 1994, reflecting the Company's changes strategic outlook. The joint posts of Chairman and CEO were separated following Harris' retirement, with Nigel Rudd being promoted to Non-Executive Chairman from the ranks of non-executive directors, and Askew taking over as CEO. In addition, Bob Davies replaced Carus as Finance Director (EME, 1994, p.4). This team were joined in 1996 by Chris Boon, as Corporate Development Director (EME, 1996, p.10). Both Davies and Boon came to EME from non-ESI backgrounds. This was the team that lead EME into its takeover by Dominion Resources, and stayed together until 1997.

In that year, Askew was appointed to run Virginia Power, one of the main businesses of the Dominion Group. He was replaced by Davies, who was promoted to CEO from the

finance portfolio. Other managers joined EME during the ownership of Dominion: Jonathan Hodgkin as Director of Corporate Development, joining from Arthur D. Little; and Paul Golby as Managing Director of EME's Networks Business, joining from Clayhithe. After the takeover by PowerGen Bob Davies, chief executive, Andy Halford, finance director, and Keith Stanyard, distribution director, rejected alternative job offers from the new owners, and left EME. EME's position within PowerGen was effectively reduced to that of a brand name, and its management merged into the management structure of PowerGen.

In respect of its organisational structure, at the beginning of the privatisation process EME operated using a two-tier structure of a Head Office, and 13 districts wherein most of the customer contact occurred. Head Office was responsible for formulating strategy, policy direction and the provision of central and specialist functions. The districts were responsible for operationalising at a local level the policies relating to the various businesses based at head office. Each district was managed by a district manager who reported to the Technical and Operations Director.

As for the organisation of EME'S businesses themselves: "East Midlands Electricity is organised into regulated and non-regulated business groups. The regulated businesses of distribution and supply are managed as a single unit by the Technical and Operations Director, while generation is managed by the Corporate Development Director. There are two non-regulated business groups, appliance retailing and electrical contracting, each managed by the Marketing Director. Each of these three Executive Directors has profit responsibility for his respective business groups. In addition, the Directors provide corporate services across the entire range of the Company's activities" (Kleinwort Benson, 1990, p.237).

At the beginning of the period, therefore, EME adopted a functional structure, with operational control and decision making undertaken at the head office, and with lower ranks responsible for implementing, but not shaping policy. There was, however, a degree of divisionalisation underway through the operation of product groups. The culture that accompanied this structure was in all probability a role culture, reflecting the dominance of the leadership elite.

As was noted above in Section 6.1.1, the major turnaround of the Company launched in 1994 saw a change to the structure of EME. In place of the two main business units a new structure based upon three divisions: Distribution; Supply; and Emco, which included all of the companies non-regulated activities, was introduced. Additionally, the thirteen

districts which had survived since privatisation were reduced to seven with the aim of achieving economies of scale, and improving customer service (EME, 1994, p.7). This restructuring sought to refocus the Company upon its core business activities, with a particular focus upon cost control and innovation *within* the core businesses (Lascelles, 1995b). The changes brought about at this time moved EME from a functional structure towards a divisional structure, with each area gaining more responsibility but head office retaining authority for the direction of policy. The change in structure brought a slight accompanying change in the organisation's culture, with greater responsibility being passed to managers for costs and profits, although the new divisions were still required to report back to head office. The culture still most closely matched a role culture, although the allowance of greater autonomy reflected the beginning of a move towards a task culture.

The 1994 restructuring was followed by a further refinement in 1996, as was discussed in Section 6.1.1. This further change was prompted by the need to prepare for the introduction of domestic competition in 1998. As previously noted, the main focus of the restructuring was the need to build customer service, lower prices, and to release value to shareholders. Within the new structure of the Company the following separate business units were established:

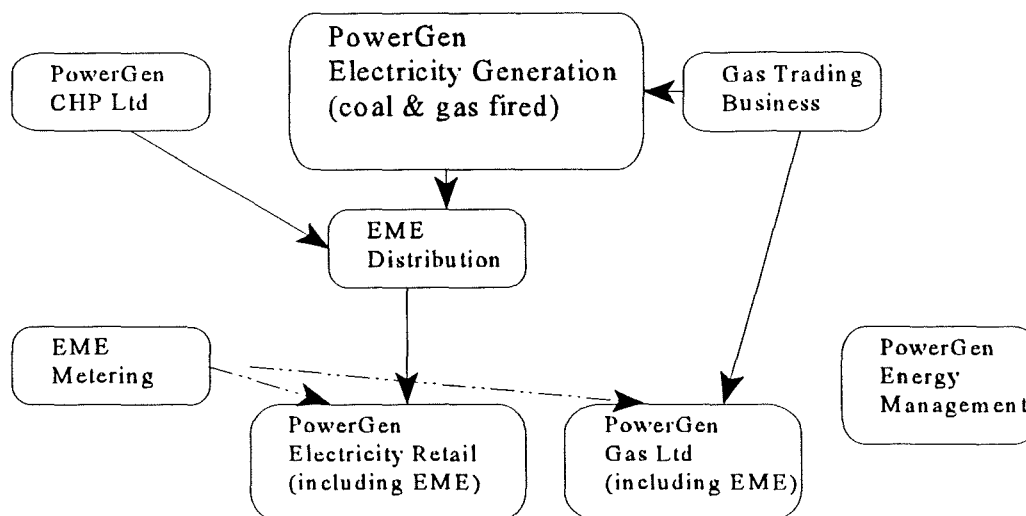
- ▶ Network Management and Development: the core regulated distribution business, which in 1996 had a turnover of £330 Million, a workforce of 1100, and an operational goal of "maximising efficiency and profitability of the regional distribution network";
- ▶ Metering: which collects information on electricity usage, which in 1996 had a turnover of £35 Million and a workforce of 55, and an operational goal of "developing metering and data handling";
- ▶ Construction: which was responsible for maintaining the electricity network, which in 1996 had a turnover of £100 Million and a workforce of 1350, and an operational goal of providing "resources for building and maintaining the network"; and
- ▶ Supply: which was responsible for the supply of gas and electricity to retail customers, which in 1996 had a turnover of £1.2 Billion and a workforce of 700, and an operational goal of providing "integrated electricity and gas sales with a strong marketing focus" (EME, 1996, p.3).

The change, with the intention of enabling "management to monitor costs more closely and expose cross subsidies" (Holberton, 1996k), introduced even greater freedom and responsibility to functional managers, although it did not go as far as establishing each

company as separate legal entities, ensuring that the culture remained fundamentally role oriented.

The takeover of EME by Dominion Resources in 1996 did not produce major structural change, as the new owners of the Company were happy to continue with the structure developed in the previous era. However the sale in 1998 of EME to PowerGen, ending PowerGen's search for a REC, which had seen it bid for Midlands in 1996 (Wighton *et al*, 1996), brought about some further change, resulting in the following structure as illustrated at Figure 6.1.

Figure 6.1: The Current Structure of PowerGen/EME



Where possible, PowerGen has integrated EME's business into its own. Therefore electricity retail is now carried out under PowerGen's brand name for EME's industrial and commercial customers, but EME's brand is now used for contact with domestic customers. Similarly, the customers of EME's subsidiary Sterling Gas have been incorporated into PowerGen's Gas retailing company PowerGen Gas, formerly Kinetica Ltd. Additionally, EME's Lincoln Green Energy has been integrated into PowerGen's Energy Management Business. Where PowerGen did not previously possess experience, such as the areas of Distribution and Metering, the EME brand has been retained.

6.1.3 Strategy Decisions at EME

This review of EME's development since privatisation suggests the following:

- that at the beginning of the process the Company had a series of aims leading to

one principal objective, which was increasing profitability. This objective was initially established, but little in the actions of EME suggests that a planned approach to achieving this objective was set in place; and

- ▶ that after the failure of this approach, with its associated corporate strategy based upon diversification and a wide interpretation of core competencies, the Company sought radical change based upon a changed emphasis. The decision to focus upon the effective management of its core business may have seen a more prescriptive approach adopted at EME.

EME was one of the RECs that was unable to provide further assistance with the research project, and did not permit any of its managers to speak to the author. As such, the observations made with respect to EME's strategy process will not be tested at this point in the research, but will instead contribute towards the development of general concepts of the strategy processes among the RECs to be tested in the case study chapters immediately following this set of chapters. The purpose of the following section is to identify the key corporate and business strategies EME pursued from 1989 onwards. Firstly, the corporate strategy decisions of EME.

6.1.3.1 Corporate Strategy

It will be necessary to refer back to Section 6.1.1 throughout this section in order to identify the differing businesses that EME was engaged in. Initially, there were four: distribution, supply, appliance retail, and contracting. These were shortly joined by security services, generation, and gas retail, before the Company was finally integrated into the current operational activities of PowerGen. Most of the details about each business's corporate strategies have been alluded to in Section 6.1.1 of this chapter, but a more formal narrative is provided here, by business activity.

(a) *Distribution*: the extent to which any REC could contemplate a corporate strategy that did not involve a concentrated growth approach is limited. The actions of the Regulator, reflecting the fact that distribution was and remains a monopoly activity, mitigates against any other approach. Service quality is obviously a key issue, in so far as it allows the Regulator to judge the effectiveness of a REC's performance in this area. Some RECs, in recognition of this concern chose to keep their contracting arm close by their distribution business to ensure it was focussed upon maintaining these performance levels. EME chose to seek to provide its contracting business with greater business freedom, and this may have had a detrimental impact upon its ability to achieve the key factors associated with concentrated growth. It is also important to note that when the turnaround strategy was applied to EME in 1994, distribution was one area that felt its impact, with significant

cost reduction being introduced. This may be interpreted as an acknowledgement that the original concentrated growth strategy had not been pursued as assiduously as it may have been. Within the industry as a whole, only three other strategies have been observed in distribution: the joint venture approach, as followed by Eastern Group (Section 7.2) and London Electricity (Section 7.3); the takeover approach favoured by SWEB/WPD (Section 6.4) and the regional development approach identified with companies like Northern (Section 5.3). There is no evidence that these approach have been sought by EME.

(b) *Electricity and Gas Supply*: EME was identified as being a REC that was aggressively seeking large supply contracts from the beginning of the privatisation era, and was thus pursuing a strategy of market development, in support of a concentrated growth approach. The problems EME experienced with levels of service for its customers suggest that its eagerness to pursue large customers may have lost it some of the goodwill it built up with its domestic customers, pointing to deficiencies in its concentrated growth strategy. This was addressed to some extent during the turnaround period 1994-96, with the introduction of a new customer call centre aiming to improve its service to customers.

EME was not one of the RECs seeking wide ranging product development, to the extent that a company such as Eastern Group (Section 7.2) has sought, although this has changed now that the supply business has been integrated into PowerGen's, and is able to bring to bear that Company's greater capabilities in this area. PowerGen speaks of its aim of bringing on line and continually improving its product development activity through "new systems and processes....(to)....enable it to adjust flexibly to the continuously evolving trading arrangements, changing customer and site numbers, and increasingly sophisticated customer requirements" (PowerGen, 2000). In the gas supply business, EME's strategy was initially innovative, and then centred upon concentrated growth. EME chose not to pursue the aggressive market development experienced in its electricity supply business, preferring to focus upon its concentrated growth approach. This changed, as had its approach to electricity, when it was absorbed into PowerGen's gas business.

(c) *Appliance Retail, Contracting, and Security*: the unregulated businesses that EME operated, which were either businesses that had been in existence prior to privatisation, appliance retailing and contracting, or developed after privatisation, security, were all intended to generate additional unregulated income for the group. Retail was immediately under threat from strong competitive forces, and its concentrated growth approach put to the test and found wanting. EME's reaction was initially to seek a joint venture partner, Yorkshire Electric, to share the risk involved, and when that failed to turn the

tide, the enterprise was divested. In contracting, EME attempted to follow a programme of market and product development, following a series of takeovers of other companies in the same industry. The venture failed to produce the required returns, and the business was partially liquidated, and partially divested. Security was identified as an area where EME felt its core competencies could be utilised, and so was arguably a concentric diversification rather than a conglomerate diversification. However, this venture did not perform as well as expected, and did not offer the synergies to justify retaining the business, and so was divested.

(d) *Generation*: EME's involvement in generation represents an attempt to strengthen the Company's basic concentrated growth strategy through a combined approach involving: innovation, where EME was one of the first RECs to explore the potential of generation as a means of improving its operational effectiveness; horizontal integration, where Corby Power helped EME manage both its distribution and supply businesses more effectively; and joint ventures, as the Corby project was undertaken in association with Hawker Siddeley to spread the risk, and to develop compatible organisational skills. The Company's generation assets were retained by Dominion Resources after the sale of the rest of the Company, due to PowerGen's existing holdings in the generation field.

This section has aimed to demonstrate that EME was initially the most adventurous of the RECs, and sought to build extensively upon a core concentrated growth strategy. However as part of this attempt EME very clearly was diverted from the successful pursuit of its central strategic objectives, based upon effectively managing its core capabilities in relation to network management. The EME case provides an example of what can happen to a company that is over ambitious, although the question of who judges the extent of 'over ambition' is key. Clearly, in the case of EME it was the City of London that made this judgement and so influenced the behaviour of the managers of the Company leading to its turnaround. The EME case also suggests that after a turnaround strategy becomes necessary, a company is likely to turn to a core concentrated growth strategy.

6.1.3.2 Business Strategy

In relation to the question of how EME has decided to compete, it is again necessary to briefly consider each activity separately, but to draw conclusions collectively. In distribution, the business strategy that EME pursued was effectively chosen by its operating environment. Given the nature of the regulatory environment, the only available competitive approach was overall cost leadership, although as the distribution industry is a regional monopoly, and as argued throughout, to call it a competitive approach is

perhaps a misnomer. In supply, differentiation has grown in importance as competition has evolved. However differentiation is perhaps an order winning criteria, whereas cost leadership remains the order qualifying criteria². While costs to domestic customers remain fairly constant across the industry, companies have sought to differentiate themselves to win orders. This suggests a segmented benefit approach to domestic customers. EME initially pursued a focussed differentiation approach, or a segmented benefit focus, in winning large out-of-area customers, while neglecting its domestic customers, a situation it sought to reverse after 1994. A full review of the aims and objectives of PowerGen is beyond the remit of this research. However, readers are directed to a recent review of that Company since privatisation (Jennings, 2000).

6.2 Midlands Electricity (now known as GPU Power UK)

Midlands is the REC for the west and central midlands of England. The Company's operating franchise covered an area of 13,300 square kilometres centred upon the densely populated conurbation of greater Birmingham, as well as parts of Staffordshire, and the largely rural areas of Gloucestershire, Hereford and Worcester and Shropshire. The area's demand profile includes a varied mixture of domestic, commercial and agricultural demand as the importance of heavy industry in the region diminished, to be replaced to some extent by widespread development among the small and medium size enterprises sector. The area has also seen significant inward relocation by financial service organisations, attracted by cheaper land costs and an improved transport infrastructure (Kleinwort Benson, 1990, p.376). The Company itself was favoured by the City at the beginning of the period, and was thought to be well managed (Thomas, 1990b). It had developed a young management team, drawing extensively upon non-industry experience under the Executive Board level, and had put in place a 20-strong team of economists "to model its local economy, believing this to be the key to understanding its prospects in the private sector: the amount of electricity travelling over its local distribution network, where most of its profits are made, will depend on the economic fortunes of its home territory" (Thomas, 1990b). Midlands had also shown foresight by moving into the Combined Heat and Power (CHP) market in anticipation of the possibility of losing some of its 1MW customers to self-generation programmes. Furthermore, It was seen to be a low cost operator, with relatively limited scope for cost reduction after controllable costs were cut in the run up to privatisation. In other words, it was identified as the perfect utility stock:

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Hill advocated the view that in a market place certain attributes of a good or service were necessarily to be offered to a consumer before the consumer would even contemplate a purchase. These were the order qualifying criteria. To make the consumer actually purchase the good or service, an added value should be attached to the product. This was the order winning criteria (Hill, 2000).

reliable, safe and consistent. However, at the same time, it was also the REC most keen to open up its overseas activities, to some extent contradicting its reliable, safe and consistent image.

6.2.1 Key Events: 1990-2000

Midlands was one of the most active of the RECs in the area of generation. Its participation in the Teeside Power joint venture was one of the first moves in this area, and signalled an intent to “pursue opportunities for profitable participation in this and other generation projects” (Kleinwort Benson, 1990, p.403) from the very beginning. This involvement in generation meant that, from an early stage, Midlands sought to identify itself as an energy company, rather than a more conventional REC. Despite this, the Company was viewed as one of the more conservative of the RECs, given its explicit concern for cost management and the reduction of its gearing. As mentioned in the preceding section, Midlands had undertaken a cost review prior to privatisation and went into the period convinced that it was a lean, low cost company. It had also developed a divisional structure, and with the establishment of Central Power to manage its generation activities, was beginning the process of establishing separate business units for its various activities.

Throughout the period Midlands strove to develop businesses which complemented the core distribution and supply businesses but which also enabled these core businesses to operate as cost effectively as possible, although its main priority was still to be maintaining and improving the distribution network. To this end Midlands:

- ▶ entered a variety of joint venture CHP projects, such as Elm Energy and Recycling (Samuelson, 1990e), Cory Environmental, marketing agreements with Unilever’s H Leverton subsidiary (Sychrava and Pearson, 1990), and STEAG, the German power company (Anon, 1991a); and formed a joint venture with American Ref-fuel called Mass Energy aiming to market CHP projects to local authorities (Buckley, 1992b);
- ▶ set up its own CHP subsidiary, Cogen (Sychrava, 1991d);
- ▶ explored the possibility of further investment in generation in projects such as the Seabank Power project with BG at Avonmouth (Hargreaves and Sychrava, 1991), and in a joint venture with Courtaulds and Mowlem CRSS (Thomas, 1990b);
- ▶ was a partner in Humberside Power joint venture with IVO, ABB and Tomen (Smith, 1994j);
- ▶ sought to defend its existing supply customers so that at the end of the first year of competition for 1MW customers it had only lost 1% to competitors (Sychrava, 1991a). Although it was not initially identified as one of the leading RECs in

terms of market development, it was quoted as offering a 20% tariff reduction to prospective new customers at the opening of the 100kW market (Smith, 1994a) having established a subsidiary called Powerline to pursue new customers;

- ▶ became the first REC to enter the gas market in a joint venture called Midlands Gas with US utility Utilicorp, and from even this early stage was looking at the possibility of a dual fuel product offering as a means of attracting customers (Sychrava, 1991c). Midlands Gas was at this time widely regarded as one of the strongest independent gas marketing companies;
- ▶ merged its appliance retailing activities into E&S Retail, the joint venture set up by Eastern and London (Thornhill, 1992), which was eventually divested in 1995 (Hollinger, 1995f);
- ▶ cut some 460 jobs over the reporting year 1992 leaving a workforce of about 7,500 (Sychrava, 1992e). These cuts were made in order to reduce overall costs by 4%. Jobs lost through this cost reduction programme were estimated to have risen to 800 by 1993, and the Company announced a plan in 1994 to cut further 1200 jobs before 1997 (Smith, 1994g);
- ▶ described the process associated with reducing controllable costs (manpower) as one involving a contingent re-skilling of the workforce. The Company was aiming to find the proper number of people to run the business. CEO Hughes said that "This is not a long-term salami exercise. We have to run this business efficiently and safely and to do that you need people." The cuts were being implemented "by applying more sensible methods and working more flexibly and by investing in better equipment." Engineers were multi-skilling to prevent long waiting times, and multiple visits to complete jobs, and had altered the length of the working day to provide more flexibility (Smith, 1995a);
- ▶ claimed that the Regulator's 1993 report on performance showed it was providing a better service than other RECS and had the lowest electricity bills in England and Wales (Lascelles, 1993d); and
- ▶ became involved in a major international consortium, Wing Merrill with US utilities such as Enron, seeking generation opportunities in Kuwait, China and Turkey (Midlands Electricity, 1993, p.10). It also became a shareholder in the Enersis Group of Portugal (Anon, 1993e), and entering wide ranging series of other ventures overseas, in Bangladesh (Anon, 1995b) and in Hungary.

The attitude of the City towards Midlands was largely determined by its approach towards seeking overseas investment opportunities. The concern was that this approach contradicted the safe utility 'bet' that Midlands represented in every other respect, and was thought to possibly be misplaced given Midlands problems in meeting its standards

of performance, which led to it failing OFFER's "overall standards" (Sychrava, 1992g). Despite this concern, a review of suggested 'buys' in the sector by analysts such as UBS, SG Warburg and Hoare Govett identified Midlands as one of the leading shares (Smith, 1994f).

The expiration of the Government's golden share led to much anticipation about possible bids for Midlands. Midlands had previously looked at the potential offered by a merger with its fellow REC Southern Electric, but both parties had concluded that the savings realised by such a merger would not add sufficient value (Smith, 1995h). However, the proposed agreed takeover by PowerGen was based more upon a growth strategy, than the REC-REC merger which would have sought principally to realise synergistic savings opportunities. The deal, the first proposed between an English generator and a REC, followed the takeover by ScottishPower of Manweb. Midlands was chosen for several reasons. The size of Midlands' electricity supply business "which is one of the largest among regional electricity companies", would provide a significant market for PowerGen (Smith and Wighton, 1995b). Midlands was also considered by the City to have one of the strongest balance sheets among the RECs, as well as having experience of international generation projects. It would also provide an expertise in billing, marketing and customer service that PowerGen would otherwise have had to develop organically. Furthermore Midlands' supply business would complement PowerGen's existing supply business, which exclusively served large customers. The bid valued Midlands at £1.95 billion (Lascelles *et al*, 1995).

However, from the early stages of the bid the industry regulator expressed some disquiet about the proposed takeover, and its implications for the wider development of competition within the industry. The move, he felt, would lead to vertical integration within the industry (Smith, 1995j). His opposition grew as the other English generator, National Power, also made a bid for a REC, Southern Electric (Section 7.5). The bids were referred to the Monopolies and Mergers Commission by the Secretary of State in late 1995 (Wighton, 1995g), who blocked them in early 1996 (Wighton *et al*, 1996), overturning a favourable recommendation by the MMC.

Midlands was not to remain independent for very long following the collapse of the PowerGen bid. A US consortium called Avon Energy, formed by General Public Utilities of New Jersey and CINergy of Cincinnati, agreed a takeover valuing Midlands at £1.7 billion less than one month later (Harverson, 1996). The US group's motivations for the investment were varied, although they announced that they were acquiring Midlands because it offered them a chance to expand in profitable overseas markets and gain

experience of operating in the deregulated industry ahead of similar changes in the US (Harverson and Holberton, 1996). Operationally, the Company was expected to remain unchanged in relation to its management structure or its corporate objectives.

Strategically, Midlands retained its existing objectives under its new owners. The Company sought to increase the profitability of its distribution business by controlling costs and improving performance, and of its supply business by aggressive selling and competitive pricing, helped by its UK generation investments. Its major unregulated business profits came from gas supply, and its overseas generation and associated investments. However, from early 1998 there were suggestions that Avon was among the US companies less satisfied with the performance of their investment principally as a result of the windfall tax on utility profits, and the government's proposals for business separation (Taylor, 1998a). This led eventually to the sale of Midlands' supply activities to National Power, in late 1998. The transaction, the first in the sector which saw the separation of a REC's licenced businesses, saw National Power agreeing to pay £180 million to Midlands' owners for its supply business which has 2.2 million customers. It left a much reduced Midlands, consisting of its distribution and generation interests under the continuing ownership of Avon Energy.

The future direction of the Company appears to lie in managing regulated networks. In mid- 1999, Midlands was reported to be seeking to purchase a water company (Taylor, 1999a). Evidence of its continuing emphasis upon cost management came in Late 1999, when it announced the loss of a further 300 jobs in its distribution business, partially as a result of the regulatory price review (Taylor, 1999f). In March 2000, Midlands Electricity changed its name to GPU Power UK, in recognition of its new sole owner, and also of the ending of its involvement in the more visible supply business (GPU, 2000b). The new Company is comprised of GPU Power Distribution, the former Network Services division, which owns and operates the network, and GPU Power Engineering, the former Engineering Services division which carries out fault restoration, maintenance and repairs. Other subsidiaries of the new company include MEB Contracting, Metering Services, Midlands Power International, and Energy Services (UK) Limited.

6.2.2 Structure of Midlands Electricity

In this section, the management and organisational structures of Midlands are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure up to the present. At privatisation, the Executive Directors on the Main Board of Midlands were as follows:

Name	Position	Joined Midlands in	From
Bryan Townsend	Chairman and Chief Executive	1986	SWEB
Richard Young	Managing Director	1982	CEGB Generation
Peter Chapman	Executive Director Finance	1989	Triplex Lloyd
Garry Degg	Executive Director Corporate Services	1987	SWEB
Michael Hughes	Executive Director Engineering	1990	GEC Alsthom
Roger Murray	Executive Director Marketing and Supplies	1985	Electricity Council

All of the initial executive director's were either chartered engineers, accountants or secretaries, and most had considerable experience of the ESI, the exceptions being Chapman and Young. The Company split the roles of Chairman and CEO in April 1993, with Townsend remaining as Chairman and Hughes being promoted to CEO, Young having left the Company in 1993. Degg also changed job title, becoming Executive Director Operations (Midlands Electricity, 1993, p.12-13). The membership of the board then remained the same until the takeover by Avon Energy, when minor changes occurred. The most significant was the replacement of Townsend as Chairman by James Leva, of Avon Energy, the new owners. Other changes that occurred under Avon's ownership involved the replacement of Chapman by Stephen King of Seeboard, in 1996 and a change in role for Murray to Group Executive Director of Energy Services, Regulation and Competition, in 1998. The sale of the Company's supply business reduced the size of the main board, but the composition has remained largely the same. At present, Hughes is still CEO, Murray is Chief Operating Officer, and King is Group Finance Officer.

At the beginning of the privatisation process Midlands, in common with other RECs, operated a two-tier structure consisting of seven divisions reporting to the Company's head office in Halesowen. Again as with other RECs, the head office was responsible for policy formulation, and the management of centralised operations such as electricity purchasing, the operation of the distribution system, the negotiation of major sales contracts and for research and development. The Company's generation business was also based at its headquarters. The divisions were responsible for customer related activities such as electricity sales, construction and maintenance of the distribution network, the retailing and servicing of appliances, contracting, meter reading, collection

of accounts and the maintenance of emergent services. Within the wider Company, a system of directorates had been established, and the managerial and structural relationship was as follows: "The management of Midlands Electricity is controlled by six Executive Directors, comprising the Chairman who is also the Chief Executive, the Managing Director and the four Executive Directors who have responsibility for the finance, corporate services, marketing and supplies and engineering directorates. There are other departments responsible for business planning and external affairs, trading and internal audit. There is significant delegation of authority to the seven divisional managers who are responsible for the conduct of day-to-day business in their division within a framework of central planning, target setting and control. All Executive Directors, heads of department and the seven divisional managers report to the Managing Director" (Kleinwort Benson, 1990, p.394).

Clearly, and despite the Company's claims of the devolution of authority, Midlands was a functionally structured organisation with a role culture, at the time of privatisation. It still operated on a departmental basis, and the coordination of the Company involved ridged centralised planning and control systems. Midlands was therefore one of the RECs that had altered its structure least at the time of privatisation. Shortly after privatisation the Company rationalised its structure to provide a platform for each business to adjust to the demands of its specific market. However, and unlike other companies, it did not at this stage formerly separate its distribution and supply activities. By the time of Midlands' third annual report (1994), the Company operated a divisional structure, as shown in Figure 6.2, which is reproduced from its 1994 Annual Report. This structure sustained the Company through until the sale of its supply business. This sale caused a major change in the structure of Midlands, now known as GPU Power UK. The present group structure is shown at Figure 6.3.

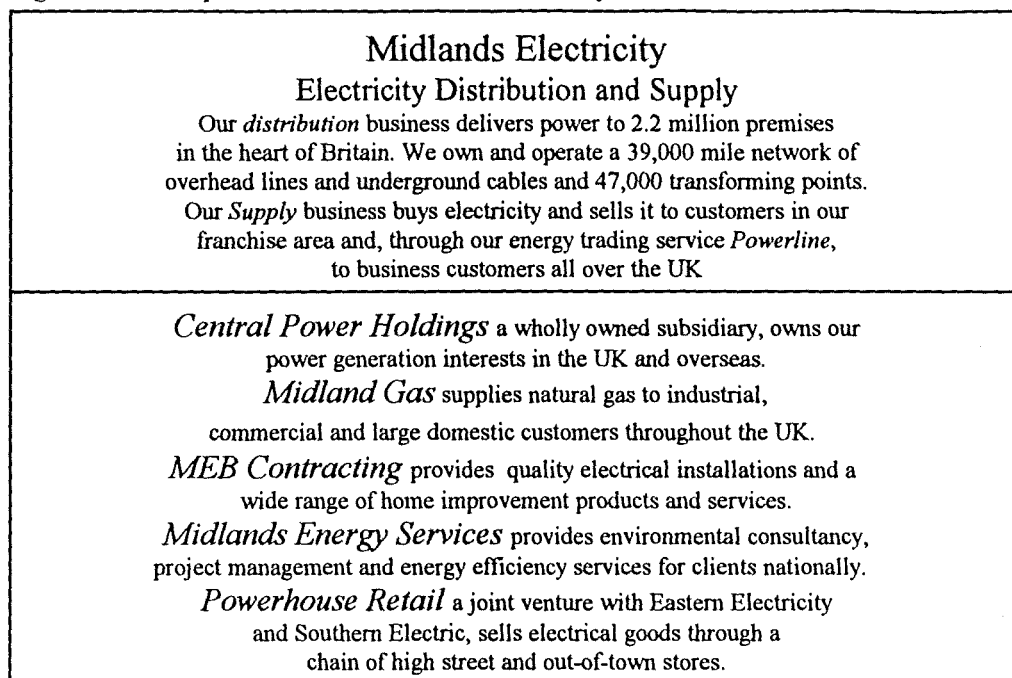
6.3.3 Strategy Decisions at Midlands

The sale of Midlands Electric's supply business to National Power reduces the scope of this section considerably. Therefore, it is proposed that the strategic decisions and processes of Midlands be explored in two phases: 1989 - 1998, and 1998 to the present day. Within the first phase, the separate corporate and business strategies of the different businesses of Midlands will be examined individually, but the second phase will be assessed collectively.

6.3.3.1 Midlands Electricity 1989-1998

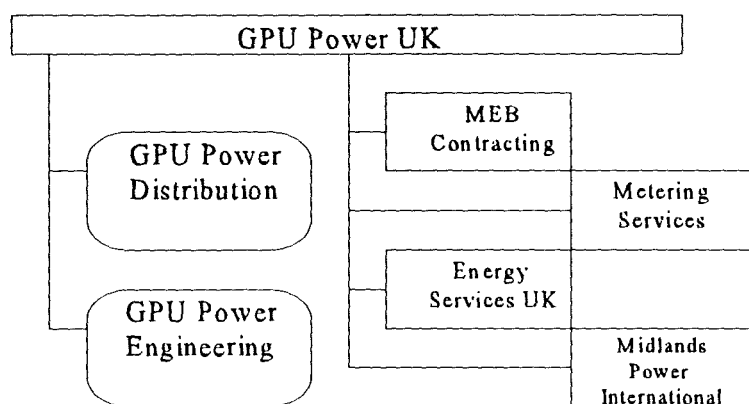
An overall assessment of Midlands during this period would conclude that it was a fundamentally conservative organisation with an explicit commitment to lowering costs

Figure 6.2: Group Structure of Midlands Electricity, 1994



From: Midlands Electricity, Energy: Annual Report and Accounts 1994, p.1

Figure 6.3: Group Structure of GPU Power UK, 2000-1



improve the performance of the network. Some of the highlights from the Regulator's last Quality of Service Report (MEB, 1999) demonstrate the service quality improvements Midlands has been making:

- ▶ Customer Minutes Lost 14% Lower than 1997/1998;
- ▶ 92.6% of Supplies Restored in 3 Hours;
- ▶ 100% of Supplies Restored in 24 Hours;
- ▶ 8% Reduction in Interruptions per 100 Customers;
- ▶ £72.6 Million Invested in Network; and
- ▶ ISO 9002 Quality Assurance Accreditation Awarded for Standards of Service Monitoring.

(b) Supply: Midlands appears to have adopted a concentrated growth approach in its supply business, at least in the early stages following privatisation. The Company was recognised as having been very successful at retaining large supply customers, following the opening of the 1MW market, but not having an aggressive approach to market development in the search for new customers. By 1994 when the 100kW market opened, that situation had changed and Midlands was intent on growing its supply business. It was thought to have been successful in this objective, and this was a principal reason given for National Power's decision to buy Midland's supply business in 1998. Like other RECs, Midlands sought to reduce its prices to customers. Partially this was due to regulatory influence, but it was also a competitive decision aimed at larger customers, and in preparation for domestic competition in 1998. The desire for managing cost and risk in supply underpinned the Company's domestic generation strategy. Like other RECs Midlands operated a specialist team, Midlands Energy Services, to offer consultancy services to prospective customers to improve efficiency and reduce costs, a segmented utility focus approach. Midlands' efforts in this area involved sponsoring an award, the Business Energy Award, to encourage small businesses to think about their energy consumption (Midlands Electricity, 1995, p.8). They also supported local environmental groups to spread concern for energy efficiency.

(c) Generation, domestic and overseas: Midlands' domestic generation activity was aimed at supporting its supply business. The Company was one of the leading domestic independent generators, with its investments in Teeside and Humberside Power groups, and in CHP. The approach was initially concentric diversification, in support of its overall concentrated growth approach. The Company's overseas activity was primarily a revenue generation activity, aimed at increasing unregulated profits. Midlands argued that the nature of the investments: in business areas they knew; in stable economies; and in large joint ventures or consortia, carried minimal business risk (Midlands Electricity, 1995,

p.10).

(d) Other Unregulated Businesses: Appliance Retail was managed to a strict concentrated growth approach, and when margins weakened was placed in a joint venture with other REC's businesses. However, continuing poor performance lead to divestment. Contracting was managed specifically for a concentrated growth approach, and continues as such today. The Company has recently established a separate metering business in anticipation of competitive and business separation developments in this area.

6.3.3.2 GPU Power UK 1998-the Present

The sale of the Company's supply business in 1998 drew Midlands/GPU back towards a core focus upon its distribution business. The Company now operates very firmly to a concentrated growth agenda, with limited unregulated revenue growth being sought by its generation and metering businesses, which pursue market development opportunities linked to the Company's overriding concentrated growth approach. Recent rumours have suggested that the Company is seeking to build upon its network management core competence by moving into the ownership of water or gas distribution networks.

6.3 South Wales Electricity Case Study (also known as SWALEC, a subsidiary of Hyder)

SWALEC is the REC for the South of Wales. The Company's operating franchise covered an area of 11,800 square kilometres and included all of south Wales from central Powys in the north to the Bristol Channel in the south, and from the Dyfed coast in the west to the eastern border of Gwent. The area's population has remained relatively static, at 2.1 million, for twenty years. Most of this population live in the southern coastal belt, and the remainder of the area is sparsely populated. Heavy industry, coal and steel, have declined in recent years but the area has been identified as a development area, and in recent years inward foreign investment and regional development funds have been substantial, leading to the development of light industrial and commercial demand. As a result, the Company's customer base is more diverse than it had been previously, although in 1990 over 50% of its demand still came from industrial customers. The managers of SWALEC were relatively circumspect in estimating their future prospects after privatisation. They, along with all other companies, noted their reliance upon their local economy (Kleinwort Benson, 1990, p.642), but also noted that they foresaw lower growth in their immediate future. Furthermore, they downplayed the importance of supply, stating that they did not "expect the supply business to provide a material contribution to the Company's earnings, taking one year with another" (Kleinwort Benson, 1990, p.642). Consequently their statement indicated a focus on effective management and upon

strengthening the core distribution business. SWALEC is of interest principally, therefore, in its role as one of the smaller RECs, and its reaction to the new opportunities made available to it. The next section deals with the key events involving SWALEC in the decade since privatisation.

6.3.1 Key Events: 1990-2000

As reported in Section 6.3, SWALEC was from an early stage a company seeking to focus upon its core business, with the result that it approached other existing or new business opportunities from a more cautious, concentrated growth based attitude. It wanted to be one of the RECs who were identified as a distribution company first and foremost, and was not expected to engage in unrelated diversification. This approach was perhaps in part a reaction to the concern expressed in various quarters about its viability in a competitive environment, and in part a recognition of its relative weakness. It was identified as early as 1990 as being a potential takeover target (Thomas, 1990e), reflecting its status as the smallest of the RECs by capitalisation. It also performed weakly in the last reporting round under government ownership, and was regarded in some quarters as having a weak leadership (Thomas, 1990i). It also had a poor reliability record (Lascelles, 1991), ultimately recognised in official OFFER statistics (Lascelles, 1993e), but blamed this upon prolonged exposure to inclement weather. In the early days following privatisation analysts such as UBS saw the company as an high risk investment although Smith New Court rated it as a modest risk as it expected the government to treat it more gently than other RECs, reflecting its demographic and infra-structural problems (Thomas, 1990e), and it was provided with the most favourable price setting formula in the initial regulatory review. SWALEC's preference for an approach based upon its distribution business was demonstrated by its efforts to involve itself with the Cardiff Bay development programme, which would enhance the earnings potential of that business (Sychrava, 1990a).

SWALEC's seeming lack of focus on its supply business was reflected in the apparent lack of concern for significant losses among its portfolio of larger supply customers. For example, it was reported to have lost 37% of its 1MW customers within months of the market opening to competition (Thomas, 1990d). However, it was one of the RECs to take the view that it would not seek to retrain or obtain a customer base at uneconomic prices, despite investor disquiet at the news of this loss of custom. It felt that the companies taking away its customers were doing so at uneconomic prices. SWALEC rationalised that the cost of losing even very large supply customers did not have a undue detrimental effect upon the Company's performance (Thomas, 1990e). However the development of self-generation capability among its larger customers would have a direct

and negative impact upon its core distribution business. This was a real threat to SWALEC's earnings growth potential.

The only area that SWALEC felt confident enough to predict non-core business development was generation. It's prospectus stated that it was keen to pursue participation in generation projects where the potential for "attractive long term" returns had been identified (Kleinwort Benson, 1990, p.642). Consequently, they were among the RECs that agreed to participate in the Teeside Power joint venture with Enron (Thomas, 1990c). They were also identified as being a potential partner in a joint venture with Texaco and Mission Energy in South Wales (Thomas, 1990a).

SWALEC's approach in the years immediately after privatisation were therefore very closely based upon a concentrated growth approach. It:

- ▶ announced a plan to reduce its controllable costs by between 2% and 3% per annum (Sychrava, 1991b), but cost cutting eventually became much more severe over this initial period (Lascelles, 1994c) running at 8% per annum in 1994;
- ▶ spent £56 million on improvements to improve the integrity of its network in 1992 (SWALEC, 1993, p.15);
- ▶ was among the first of the RECs to leave retail (Sychrava, 1992d); and
- ▶ summarised its strategic intent in 1995 when it announced that it would drive its core business hard, taking out costs and improving services (Adburnham, 1995).

It did however reject the potential synergistic opportunities presented by the possibility of a joint venture with Welsh Water (Dalby, 1991). Against this, it also sought to develop non-core unregulated business to account for one fifth of its profits by 2000 (Smith, 1994h), leading to some concern over its exposure in areas like contracting that were not performing as well as hoped (Lascelles, 1993a), particularly after some horizontal acquisitions by its contracting subsidiary Celtic Contracting Services. It was the second REC to enter the cable telephony industry, as a partner in the CableTel joint venture (Adonis, 1993c), and was among the RECs to enter the gas industry in its joint venture with Amerada Hess, to be known as South Wales Energy (Anon, 1992f). CableTel was expected to generate up to 10% of group earnings by 2000. Progress during this time was seen as being steady. Its cost reduction programme was effective, and it was the first REC to cut its prices after privatisation (Sychrava, 1992d).

The expiration of the Government's golden share in the RECs in March of 1995, saw SWALEC in a stable economic, but precarious organisational position. During the early months, there was much speculation that SWALEC would be one of the first RECs to

receive a bid, but in actuality that bid did not come until late in 1995, when several of the RECs had already changed ownership. The bid came from Welsh Water, which had caused controversy early in the period by taking a large preemptive stake in SWALEC (Dalby, 1991). The bid was not welcomed by the board of SWALEC, but the City identified it as a logical step, to reduce costs through synergy in an area of the country where operating costs were seen as being substantially higher than elsewhere. Indeed, the lack of any early bid was put down to the questionable benefit of acquiring SWALEC for any investor that did not realise substantial synergistic savings (Hollinger, 1995g). Analysts placed an expected saving of £35 million on any merger between the two Welsh companies. Welsh Water throughout the bid process refused to estimate the expected level of savings. After some negotiation, the bid was finally cleared in early 1996 (Wighton and Lascelles, 1996).

After the takeover Hyder, as the merged companies were to be known, set about a process of severe rationalisation aimed at pairing its assets down to its core businesses. The first step in this process was to establish a common services company to manage a range of support services including customer inquiries, training and information technology. This decision appeared to suggest that central functions, rather than core business functions could expect to see cost reductions. In June of 1996, the Company announced 900 jobs were to be cut, of which 570 came from the combined services company (Martinson, 1996a). Overall, 10% of the Company's workforce was to be cut, with the aim of realising £46 million worth of savings directly from the merger, and a further £54 million as a result of post-merger efficiency savings. These cuts were followed by further cost reduction measures, such as the formal merger of the water, electricity and gas businesses which achieved a reduction of 350 jobs. The Company also merged its non-core businesses to form Hyder Infrastructure Developments, and realise more savings (Terazono, 1997). At the 1998 reporting stage, Hyder announced that its cost reduction programmes had realised a further £17 million in savings that year, with further savings anticipated (Taylor, 1998d).

The programme also included the divestment of non-core businesses. The following divestments occurred after the takeover:

- ▶ CableTel SW, to their US partner International CableTel for £50 million (Martinson, 1996d);
- ▶ Property to the value of £10 million;
- ▶ Welsh Water's stake in Czech water group Severoceske Vodovody a Kanalizace (Anderson, 1998); and most significantly
- ▶ SWALEC's supply business to British Energy, for £105 million (Taylor, 1999d).

The decision to cease participation in the supply side of SWALEC's business is indicative of a number of trends. Firstly, it was indicative of how difficult it was becoming to compete in this industry, especially when a national generator makes an offer for the asset that the owner finds hard to resist³. Secondly, it showed that Hyder was seeking to remain true to its objective of concentrating upon its core businesses. This question of 'what is core?' was clarified in 1997 when Hyder announced that it viewed its core expertise as being the whole life management of assets, an extension of the 'network management' core capability that many of the RECs were seeking to emphasise (Marsh, 1997a). Hyder took this concept further, and this underpinned the Company's decision to enter the apparently unrelated area of motorway construction, and other infrastructural activities. Managing assets such as these were identified as representing a logical extension of the existing skills inherent in the two core infrastructure/network businesses (Jowit, 1998). The diversification was necessary because, the Company thought, they were rapidly approaching a situation where all cost savings had been 'wrung' from its water and distribution businesses, thus threatening profitability.

The impact of this observation is evidenced by the Company's involvement in large consortia, as it has sought opportunities to extend its core skills into projects with an emphasis upon major infrastructure development. Hyder was a member of the Cardiff Gateway consortium (Adburnham, 1996), the consortium building the Lewisham Link on the Docklands Light Railway (Batchelor and Suzman, 1996), the UK Highways consortium created to upgrade the M40 (Taylor, 1996), and as part of the Tube Lines Group, bidding to take over London Underground lines if they were privatised (Parker and Voyle, 1999). In addition, Hyder formed a formal joint venture with John Laing, called Hyder Laing, specifically to bid for Public Finance Initiatives (PFI) (Timmins, 1998). It was also active in consortia bidding for major infrastructure projects in Australia and the Far East (Martinson, 1996b).

The decision to divest the Company's supply business was justified on the basis of it not being a core activity. However, the decision Hyder took to consider a divestment of its distribution business was more to do with the continuing difficulties that the Group was experiencing. The decision was principally located in the review conducted by the water regulator which reported in November of 1999. In addition to price cuts, Hyder was required to make investments of up to £1.7 billion to improve the quality of its

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Although the valuation of SWALEC's business was considerably less than those of Midlands, at £180 million, and SWEB, at £235 million.

infrastructure. The extra demands placed upon Hyder by this adjudication were thought to be particularly difficult for the Company to meet, especially as Hyder was seen as being “particularly vulnerable” at this time (Taylor, 1999e). The proposed sale saw two main bidders seeking to buy the distribution business: Western Power Distribution (WPD) and Nomura. A bitter takeover struggle followed which saw the UK company, formerly called SWEB (Section 6.4), victorious over the Japanese investment bank (Barker, 2000), who had aimed to hold the ownership of SWALEC distribution, but to pass its management to United Utilities (Section 5.2), the other major multi-utility organisation operating in England and Wales. WPD’s aim was to formally merge the two businesses. The sale was intended to partially allay concern about the Group’s debt which was estimated to have exceeded £1.9 billion.

6.3.2 Structure of SWALEC

In this section the management and organisational structures of SWALEC are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure up until the takeover by Welsh Water. At privatisation, the Executive Directors on the Main Board of SWALEC were as follows:

Name	Position	Joined SWALEC in	From
Wynford Evans	Chairman	1984	London Electricity
David Jones	Managing Director	1988	SWEB
James Eddyshaw	Energy Trading Director	1972	another Area Board
David Myring	Finance Director	1988	Peat Marwick Mitchell
Bryon Samuel	Operations Director	1950	ESI
Alan Worth	Corporate Services Director	1969	another Area Board

The Main Board of SWALEC, with the exception of Finance Director Myring, were all experienced industry men (Kleinwort Benson, 1990, p.659). All of these managers, again with the exception of Myring, were also chartered engineers. The very seniority of the managers who took SWALEC into the new era ensured that a number of changes occurred in short order, and within three years Jones had been redesignated Group Chief Executive, Eddyshaw and Worth had both left the board to be replaced by David Gibbard, promoted to replace Eddyshaw as energy trading director in 1991, and Michael Mackey, promoted to replace Worth as Commercial Director in 1993. Gibbard later, in 1993, replaced Samuel as Operations Director on Samuel’s retirement. Both Gibbard and

Mackey were also ESI men. The changes continued in 1994, as Jones left to join the NGC, to be replaced by Andrew Walker from the TI Group, while Evans stood down as Chairman, to become Non-Executive Chairman in November of 1994. There were two further significant changes to the board before the takeover discussions with Welsh Water. Adrian Auer joined from ICI Paints to replace Myring as Finance Director, and Peter Morgan replaced Evans as Non-Executive Director in late 1995. After the takeover, Morgan was replaced as Chairman by Graham Hawker of Welsh Water, and all of the other SWALEC directors were replaced by Welsh Water employees (Anon, 1996). The current Main Board of Hyder is as follows:

Name	Position	Joined Hyder in	From
John Robins	Non-Executive group Chairman	1997	Guardian Royal Exchange
Graham Hawker	Group Chief Executive	1993	Water Industry
Paul Twamley	Group Finance Director	1992	Coopers and Lybrand
Michael Brooker	Managing Director, Hyder Operations	1980	Welsh Water
John James	Group Commercial Director	1992	non-executive director

In relation to organisational structure, SWALEC was an organisation operating a geographically oriented divisional structure at the time of privatisation. This structure divided the SWALEC region into Western, Eastern and Central operating divisions, each with a general manager operating with some autonomy from the Head Office within "a framework of central planning, target setting and controls" (Kleinwort Benson, 1990, p.659). The Company also operated a specialist central engineering services unit, in addition to other centralised functions at Head Office. Within the Head Office "the Board of Directors sets the overall objectives, strategies, policies, budgets and targets for the Company" (Kleinwort Benson, 1990, p.659). The corporate centre of the Company underwent a reorganisation in 1992, and the Central Group services were slimmed down and refocused into four Head Office divisions: Corporate Services, Personnel, Finance and Public Affairs (SWALEC, 1993, p.8). At the same time the core distribution business was established as a separate Network Services Division, focussed upon effective operational performance. The supply businesses were grouped under the Customer Services Division, aimed at enhancing customer satisfaction (SWALEC, 1994, p.9). At the time of the takeover by Welsh Water, therefore, the Company had evolved into a product oriented divisional structure, as more autonomy was decentralised from the Head Office. As has

been indicated before, part of this change resulted from the instigation of the Regulator, but some undoubtably resulted from the growing trend among the RECs to organise their various businesses along product divisional lines.

Hyder, as an organisation, was therefore involved in a wider variety of businesses. These included:

Energy	Water	Transportation	Buildings	Services
power generation	water supply	bridges	specialist	consultancy
on-site installations	water management	tunnels	structures	environmental
distribution	waste water	highways	public buildings	assessment
networks	services	ports and airports	facilities	contact centre
	resource	railways and metros	management	revenue collection
	assessment	fleet management		procurement
	utility outsourcing			payroll
				training
				IT managed services

Source: Hyder (2000)

The Company's main operating division is called Hyder Utilities. However, the sale of the former SWALEC distribution business brought a further organisational restructuring, as its interest in energy was markedly reduced.

6.3.3 Strategy Decisions at SWALEC

As became clear from the analysis of key events, SWALEC was an organisation that sought to operate a concentrated growth strategy across its whole organisation, but with a particular focus upon its core distribution business. This decision manifested itself through a focus upon cost management in this area, to maximise the profits allowed by the regulatory regime. It also involved large scale infra-structural investments to improve the efficiency and effectiveness of the network: a network that was under greater threat than most due to the inclemency of the local weather. This concentrated growth approach was augmented by market development initiatives such as the Company's participation in the Cardiff Bay redevelopment which increased the demand for its network services. Once again it is necessary to state that in this monopoly area there was no potential for a business strategy of any kind, although the approach pursued closely approximates a cost leadership strategy.

The concentrated growth approach dominated all other aspects of the Company's activities. SWALEC's supply activities suffered initially because of their reliance upon industrial demand. However, the Company took an early decision that this problem would be combatted by adopting a differentiation focus or a segmented benefit focus approach, rather than a cost leadership or cost focus approach, because they did not believe in the

economic veracity of entering into a bidding competition with other industry players. Having decided not to compete on price, therefore, they sought to compete on service. The infrastructure investments already mentioned played a part in this process, as did investments like the CROESO computer systems project, a joint venture with SWEB which was supposed to improve the Company's responsiveness to customer needs⁴. SWALEC, like the other RECs, developed a series of products that it offered to the market in an attempt to convince customers of the non-cost benefits of retaining their supply from the Company. However, SWALEC was not one of the innovators in this area of the industry and was not prepared to back up its customer service efforts with underpriced electricity, a focus benefit approach, in domestic supply. It was, however, active in attempting to hedge against fluctuations in its energy costs, by agreeing longer term supply contracts with both National Power and PowerGen, as well as exploiting the scope for cheaper energy generated at Teeside Power, of which it was a part owner (SWALEC, 1995, p.25). After the takeover by Welsh Water and the formation of Hyder, supply was identified as a non-core business and divested in early 2000.

The Company's other business activities have all been subject to the same concentrated growth approach. SWALEC's appliance retail operation was one of the first to be divested as trading reality began to undermine its operational effectiveness and its customer service contribution began to be eroded by other company functions. Contracting was initially identified as an area of potential non-regulated earnings growth, but over time this also has been principally governed by a concentrated growth approach, after early horizontal integration. Generation continued to be an activity principally undertaken in support of a competitive supply offering, but since the divestment of supply has been run along asset management lines, seeking to improve its contribution to group profits through a concentrated growth approach. Other investments, such as the cable telephone investment CableTel, have been divested as they no longer conform to the concept of a core business.

Overall therefore, SWALEC prior to privatisation was one of the RECs that had focussed its corporate strategy efforts primarily upon concentrated growth, with only occasional forays into diversification, although this diversification was always either concentric or based upon horizontal or vertical integration. Among the various businesses, the Company was by nature attempting a cost leadership business strategy, but not at the cost

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However, the system ran into considerable problems and was abandoned by Hyder soon after the takeover (Holberton, 1996i).

of profitability. In situations where attempting to develop cost leadership was leading to uneconomic business activity, as it felt was the case in supply, it would seek to develop differentiation or focussed differentiation approaches.

Since the takeover by Welsh Water, SWALEC as an organisation has become a much more abstract concept. The sale of its supply business to British Energy and of its distribution business to Western Power Distribution (WPD) effectively mark the end of SWALEC as an identifiable entity: WPD aim to merge SWALEC's distribution business with its own contiguous distribution network once regulatory approval is granted, while Nomura were proposing to hold it as an asset, to be managed on its behalf by the other multi-utility operating in England and Wales, United Utilities.

6.4 South Western Electricity Case Study (also known as SWEB, and latterly as Western Power Distribution)

SWEB is the REC for the South West of England. The Company's operating franchise covered an area of 14,400 square kilometres from Bristol and Bath in the north east, along the south western peninsula to Land's End, and also the Isles of Scilly. The area is largely rural, but does include the major towns and cities of Bath, Bristol, Exeter, Plymouth, Taunton, Torquay, and Western-super-Mare, as well as many coastal holiday resorts. In 1989 the population of the SWEB area was estimated at 2.7 million, and growing. The demand for energy in the SWEB region was predominantly domestic, with smaller amounts of industrial, commercial and agricultural demand. SWEB's business was recognised as being closely tied to the prevailing weather conditions in the most exposed region of the UK. In distribution, the location of the Company caused a larger than average pressure upon the network system, as maintenance levels are higher due to the effects of weather, and corrosion. In supply, with the high proportion of domestic customers, demand is seasonally influenced by the weather (Kleinwort Benson, 1990, p.694). It's directors believed that the Company's future prospects were very much linked to the economic development of the area. They also stated the view that its prospects were very closely linked to the prevailing regulatory climate. SWEB, like SWALEC, is of interest principally because of the challenges facing it in the new era which were felt to be considerable, and exacerbated by the Company's small size.

6.4.1 Key Events: 1990-2000

SWEB's senior managers stated very early on that the Company's distribution activity was to remain its core business, contributing the majority of its profits (Pearson, 1990c). While they stated a belief that costs could be controlled within that business, they did not

initially outline a concerted cost reduction programme. Supply remained a key function, but one where performance was very much linked to external factors. They did not indicate that market development was on the Company's agenda, nor particularly a policy to aggressively pursue new 1MW customers in the liberalised franchise market. SWEB did, however, indicate at an early stage that they were hoping to make early and repeated investments in generation, starting with the decision to take an equity stake in the Teeside Power joint venture (Kleinwort Benson, 1990, p.696). The company also initially intended to remain active in, and seek to grow, its appliance retailing business.

This focus upon distribution and generation, and de-emphasis of supply, was reflected in 1990 when the Company was reported to have lost up to 70 of its largest supply customers in the newly competitive 1 MW supply market (Pearson, 1990c). Within its existing monopoly business, SWEB was intending to drive out costs and improve its customer service. Overall it could be argued, therefore, that SWEB was committed to pursuing an archetypal set of strategies that a REC might be expected to pursue based upon an emphasis on its core distribution business, identification of generation as a potential source of unregulated income, and a commitment to its existing supply and retail activities, albeit a less aggressive commitment to supply than many of its peers.

SWEB was one of the first RECs to move towards developing a divisional structure to manage its businesses, and had the new structure in place prior to privatisation. The divisions included an operations division, to manage the network; a trading division, which included the unregulated contracting and appliance retailing operations; a commercial marketing division, which managed the supply business; an information systems and personnel division; and a resources and external affairs division, to manage legal and external affairs, facilities and property. This configuration was fine-tuned after privatisation, but characterised the structure of the company until its takeover by Southern Company in 1995.

The Company identified early on the need to manage costs effectively. It established a rolling cost reduction programme aimed at reducing its controllable costs by 10% within the first 5 years after privatisation. Although this process was completed a year early, SWEB still came under criticism from some quarters for not pursuing this approach as devotedly as was expected by many observers in the City, and having a lower performance level in areas such as keeping customer appointments and so on (Adburnham, 1993). SWEB was effectively judged by the performance of other RECs in relation to cost reduction, although this is perhaps to do SWEB an injustice. SWEB has always been seen as having higher costs than most of the RECs. However, this has been a product of the

nature of the operational area SWEB inhabits, which is significantly more challenging than for many of the other RECs.

The key business decisions taken by SWEB during this time included:

- ▶ Merging with, then taking over, SWALEC's appliance retailing operations (Nakamoto, 1992);
- ▶ Becoming the third REC to make significant investments in the telecoms services sector, by establishing a fibre-optic network across its electricity network (Adonis, 1993d);
- ▶ Taking a stake in the UK's first commercial wind farm, Windelectric (Hunt, 1991); and
- ▶ Launched a gas marketing subsidiary, Western Gas, in a joint venture with Utilicorp (Lascelles, 1992c).

Overall though, SWEB was identified as being a middle of the road REC, one that had made no obviously poor moves but which had failed to shine (Smith, 1995d). It was expected to be among the first RECs to receive a bid upon the expiration of the golden share, and did so in July 1995.

SWEB was subject to a contested takeover bid by the US integrated utility Southern Company⁵ in July 1995, which was eventually successful in August 1995 (Smith, 1995g). SWEB was the first of the RECs to lose its independence, after the original SWEB board decided against undertaking an exhaustive defence of their independence after the manner of Northern Electric (Section 5.3), and eventually amicably concluded the deal with Southern. Immediately following the takeover, the board was replaced by a team predominantly drawn from Southern⁶.

Southern's objective in its takeover of SWEB, was linked to its company objective of becoming the "best investment in the electric utility industry" (Southern Company, 1996, p.2). Southern's overseas expansion programme was aimed at bringing on line 'non-traditional' profit streams to account for 30% of their net income by 2003, in part to offset the advent of competition in its home market. It felt that it could bring a number of

5

Not to be confused with the UK REC Southern Electric, reviewed in Section 7.4.

6

Southern Co. sold 25% of SWEB to another US utility, PP&L, in July 1996 for £189 million (Holberton, 1996g), and a further 26% in June 1998 for £100 million (Cave, 1998). PP&L therefore were the majority shareholders, but Southern Co. retained operational control.

positive benefits to SWEB, particularly in the area of customer service which as has been made clear was a perceived area of weakness for the UK Company. Upon winning the takeover, it became clear that SWEB was to be used as a bridgehead for Southern in an ever-more competitive European market place, and that Southern wished to become a key player in the UK market. This was to be achieved by ownership of generation capacity and it is Southern's 'frustrations' in this area that characterises the Company's experience in the UK industry, and explains SWEB's current incarnation as Western Power Distribution.

In pursuit of its goals, SWEB's new board instigated: a wide ranging and severe cost reduction/efficiency improvement programme in distribution; a step improvement in customer service and competitiveness in supply; and an aggressive acquisition policy in generation, while other businesses were divested. Southern also sought to change the operating culture of SWEB, by making it more entrepreneurial yet team focussed at the same time. Southern's plans for SWEB were disrupted in two of the three key business areas, and witnessed a recent retreat from the industry. This retreat was principally due to two major setbacks in its strategy for generation: firstly, the blocking by the then Conservative administration of its intention to bid for National Power (the largest UK generator) (Harverson, 1995), and secondly, by the moratorium placed upon new build CCGT power stations by the incoming Labour administration, after Southern had succeeded in winning planning consents for a station in the north east of England (Holberton, 1997g).

These decisions were major setbacks for Southern, especially when viewed alongside the decision of the Labour government to levy a tax on the windfall profits of the privatised utilities. The windfall tax levied upon SWEB was £90 million, which effectively cost the company its first two years of operating profits from its investment. All of these set backs impacted upon SWEB's commitment to its supply business. With supply becoming an increasingly competitive business, and with margins in the business being forced lower due to that competition, it was becoming clear to SWEB/Southern that the only way to succeed was to have a critical mass of customers, across both electricity and gas. SWEB estimated that it required 5 million customers for the business to be viable.

In June of 1999, SWEB's supply business was sold to EDF/London Electricity for £235 million (Taylor and Wighton, 1999). In announcing the decision, a spokesman for Southern Company said that the Company had been faced with four possible options in supply, and it had chosen the final option of divestment as the other three options had not proved feasible. The options open to SWEB and the problems associated with them were

as follows:

- (i) Organic Growth: This option was perceived as being too slow and too costly to be realistic in an highly competitive market place;
- (ii) Acquisition of another REC's supply business: This option was discounted as the asking price for another firm's supply business was felt to be too high for the Company to pay;
- (iii) Joint venture: This option was not open to SWEB as none of the other RECs that SWEB approached were willing to enter into such an agreement⁷; leaving
- (iv) Divestment: Having all of the other avenues closed to them, and having received an offer from EDF/LE that it felt it could not refuse, being higher than the earnings SWEB expected from the supply business, the business was sold.

The price SWEB paid was the effective end of its owner's plans in the competitive parts of the UK market, and a shifting of their emphasis to Germany.

Therefore SWEB no longer exists in a form recognisable to that in which it was privatised. While technically South Western Electricity still holds the combined distribution and supply licenses for the region, the supply licence is now managed by EDF/London, who now own the brand name. SWEB distribution is now trading as Western Power Distribution, and will formerly change its name to reflect this change when the licences are formerly separated by the Regulator after the passing of the Utilities Act 2000.

Western Power Distribution is simply a distribution company, managing as efficiently as possible its network of overhead cables to perform its obligation to distribute electricity over the south west, and to attempt to grow unregulated profits in its telecoms activity. It is therefore pursuing a niche strategy, based upon the elements of a concentration approach which emphasise efficiency and reliability. However, the Company recently extended its activities in the distribution sector by successfully bidding for the distribution business of SWALEC, when it was put onto the market by its owner Hyder (Bennett and Taylor, 2000 and Barker, 2000).

6.4.2 Structure of SWEB

In this section, the management and organisational structures of SWEB are presented, and significant changes to either during the period are highlighted. Firstly, the senior

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It is instructive that this was also identified by Dominion Resources as a reason for its decision to sell EME, in Section 6.1.

management structure up until the present day. At privatisation, the Executive Directors of the Main Board of SWEB were as follows:

Name	Position	Joined SWEB in	From
William Nicol	Chairman and Chief Executive	1987	London Electricity
John Seed	Managing Director	1986	Eastern Electricity
John Bonner	Contracts and Tariffs Director	1973	another Area Board
Malcolm Carson	Operations Director	1989	Seaboard
Stephen Marshall	Resources and External Affairs Director and Company Secretary	1957	solicitor
Randall Meadows	Trading Director	1976	ESI
David Mutton	Corporate Services Director	1987	another Area Board
John Sellers	Finance Director	1989	Land Rover Ltd

The senior managers of SWEB, the largest main board at privatisation, retained the conventional industry bias evident in most if not all of the other RECs. As with most of the other RECs, the only non-industry managers were the company secretary and the finance director, while most of the managers were engineers. The early period following privatisation saw some changes in job designation, with Bonner becoming Commercial Director and Seed becoming CEO, both in 1992, when SWEB became the third REC to split the posts of Chairman and CEO. Other managers, such as Meadows, retired. Essentially, the SWEB team which led the Company into the new era was that which contested the takeover by Southern. After the takeover, the board was replaced. The scenario was unlike other RECs where these departures were acrimonious, with Sellers, Bonner and Carson staying on to oversee the transition period (Smith, 1995i). The senior board managers were replaced by managers from Southern's home companies in Atlanta: Gale Klappa as CEO, Mike Harreld as Finance Director, Alan Harrelson as Director of Operations, and Philip Saunders as Commercial Marketing Director. In addition, Chuck Whitney was appointed as President of Southern Electric International - Europe to oversee business development in Europe. This team stayed together until the sale of the supply business signalled a scaling down of Southern Company's involvement in the UK. Many of the expatriate US managers were repatriated leaving the board of the new company comprised of Paul Bowers as CEO, Robert Symons as Distribution Director, Charl Oosthuizen as Finance Director and Maurice Fletcher as Resources and External

Affairs Director. Bowers and Oosthuizen were US managers, while Symons and Fletcher had been promoted through the Company ranks.

At the beginning of the privatisation process, SWEB was organised around a geographically oriented divisional structure, based upon four divisions: Cornwall, Devon, Somerset and Severnside, with strategic decisions being taken at the corporate head office. However, as stated above in Section 6.4, the functional activities of SWEB were also divisionalized prior to privatisation. The managerial and structural relationship was as follows: "The management of SWEB is controlled from head office by the Executive Directors comprising the Chairman and Chief Executive, the Managing Director and six Executive Directors who each have responsibility for one of the six divisions of SWEB. Head Office is responsible for formulation of policy, co-ordination of Divisional operations and direct management of centralised operations. The Operations, Contracts and Tariffs, and Trading Divisions control SWEB's three principal businesses, namely distribution, supply and trading. The finance, Corporate Services and Resources and External Affairs Divisions both support these activities and contribute to the formulation of the Company's overall strategy.....The day-to-day management of the field activities in the distribution and supply businesses is the responsibility of the four area managers who report to the Operations Director. The retailing and contracting activities of SWEB are controlled centrally by the Trading Director" (Kleinwort Benson, 1990, p.713).

SWEB therefore operated one of the more advanced organisational structures within the industry, which saw a more sophisticated divisional structure in place, which allowed for a greater degree of delegated authority to be passed to operational managers. This initial structure was continuously refined during the period of independence, prior to the takeover by Southern. Principally, in 1992, a more entrepreneurial approach was engendered by the use of subsidiaries to encourage a more commercial approach in SWEB's non-regulated businesses, a further example of the internal network concept gaining wide currency within the industry (Miles and Snow, 1992). In 1992, SWEB Retail and SWEB Connect were established to operate the Company's appliance retail and contracting activities. This formula was repeated for SWEB Training and Consultancy, SWEB Property and even SWEB Helicopters.

The takeover by Southern did not affect the structure of the Company, more the managerial philosophy. This principally involved de-emphasising the concept of a divisional structure, although formally the structure was still based upon divisions. The Company did seek to build upon the concept of an internal market between the various SWEB activities, to encourage entrepreneurialism. Eventually, it was envisaged that this

internal market could be extended to allow external suppliers into the SWEB network. However, the sale of SWEB Retail placed a halt upon this development, and Western Power Distribution has reverted to a functional structure as suits an organisation with a single business, although functions are organised into directorates within the Company.

6.4.3 Strategy Decisions at SWEB

SWEB has been through several key phases since privatisation, and this section reflects these phases. The first phase was roughly 1989 to 1995, when the Company was independent. The second phase was 1995 to 1999, under the ownership of Southern Company and PP&L, while the third and current phase, 1999 to the present day, sees the Company re-designated as Western Power Distribution, with a much reduced scope of business activity.

(a) 1989-1995: During this first phase, SWEB was focussed very closely upon operating a concentrated growth approach in its distribution business, in line with all of the other RECs. SWEB sought to keep a close control on its cost base, and undertook a rolling series of cost reduction measures. It is interesting to note the extent to which this approach was also the norm within the wider industry, as the extent of the cuts initiated by SWEB was seen to be insufficient by the City and industry observers alike. The Company was also seeking to improve the effectiveness of its network by undertaking significant capital spending. The development of a cable telephone business represents an attempt to diversify its non-regulated earnings through the use of its existing network - concentric diversification. Once again, the distribution business of a REC can not be said to have a recognisable business strategy, as it was not in competition and a form of cost leadership was all it had available to it.

As has been noted, immediately post privatisation SWEB principally focussed upon its distribution business. It took the view that supply was a high turnover, low margin business so did not put a great emphasis upon defending its large supply customers when the franchise market opened, and similarly was not aggressive in seeking to win the customers of other RECs in this market. It did not operate the sort of market development strategies that other companies utilised. Once again, it sought a concentrated growth approach through differentiation. SWEB prided itself upon its customer service, and was an innovative company in some respects such as the areas of metering and billing. It therefore operated a focus benefit approach in domestic electricity supply. SWEB also engaged in the process of competitively reducing its tariff. However, in the early post privatisation period the company was consistently regarded as the worst performing REC in relation to customer service, and the performance standards

established by the Regulator. The only difference to this approach came in gas supply, where SWEB was considerably more aggressive, operating a segmented cost focus approach in domestic and industrial gas supply, and as a new market entrant was seeking market development opportunities.

In Appliance Retail, SWEB initially sought to build a strong presence through market development (the acquisition of SWALEC's retail outlets), but shortly after took the decision to divest its assets in this area. Similarly, an initial commitment to compete in contracting has been ended, and its businesses divested. In generation, SWEB sought to develop a source of cheaper energy in support of the Company's concentrated growth strategy in supply. However, there was a general feeling that the strategies that the Company was pursuing in distribution and supply were generally not performing well.

(b) 1995-1999: However, following the takeover by Southern Company, this poor performance was generally seen to have been reversed. The Company placed a much greater emphasis upon both product and market development to win new customers, and upon enhancing its previous concentration approach to ensure that its existing and future customer's experiences with SWEB supply were much improved. Part of this success, which saw a complete reversal of the Company's position in relation to customer perception, involved increasing its role as a corporate citizen, and to improving service delivery and customer service.

Southern's plan for SWEB was to be based upon the following grand strategies:

- ▶ **Distribution:** a concentrated growth strategy based upon continually improved efficiency and cost management;
- ▶ **Supply:** a combined strategy based upon concentrated growth (defending existing customers through greatly improved customer service, raising the profile of the Company through corporate citizenship and advertising, and competitive pricing), market development (a more aggressive policy of winning large franchise customers, and providing a dual fuel package, and a segmented utility approach), and product development (offering a green tariff, dual fuel); and
- ▶ **Generation:** contributing to a vertical integration strategy based upon building, buying or co-owning generation capacity to secure cheaper supplies of electricity and to enable its supply business to competitively price its products.

Other Businesses were to be divested unless they were perceived as being concentric diversification. Hence the company divested its appliance retail, contracting and telecoms retail activities, but retained its telecoms network interests as they were consistent with the asset management core competencies developed by the company's distribution business.

SWEB under Southern was therefore a much more dynamic organisation, seeking to grow out of its core concentrated growth strategy, and elevating supply to a much more significant position in the Company's plans. SWEB's approach in supply was based upon both differentiation and cost leadership, with a particular differentiation and cost focus in its own operating area, due to the choice of the South West as a test bed for both electricity and gas privatisation plans.

(c) 1999 to the present: The various setbacks experienced by Southern/SWEB documented in Section 6.4.1 culminating in the sale of SWEB Retail brought about a significant change in the operations of the Company. WPD is now solely a distribution company, with few non-regulated activities. While it still owns a share, for example, in Teeside Power that business is run for profit rather than to serve any wider strategic objectives. WPD operates a company wide concentrated growth approach. However, Southern/WPD's recent bid for the distribution business of Hyder indicates a desire to engage in horizontal integration in support of that core concentrated growth approach.

6.5 Analysis of Cases

This section continues the work of Section 5.5, in examining the strategic content of four of the twelve RECs, and begins the process of understanding the factors driving these strategies, as well as commenting upon the strategic combinations identified during this process. The structure of this reporting will be the same as in Chapter Five, except that this chapter's dual focus: on the Midlands RECs (Section 6.5.1-6.5.4) and the agricultural RECs (Section 6.5.5-6.5.8), is reflected in a separate analysis.

6.5.1 The Midlands RECs: Observations: Objective One

The methodological procedure followed in this chapter was the same as followed in Chapter Five, and readers are referred to Section 5.5.1 for an explanation of the process. Table 6.1 and 6.2 present a summary of the key corporate and business strategies employed by the sub-sample during the period. The relative importance of each strategy to each company is shown. Once again, as with the analysis of companies in Chapter Five, there are notable similarities as well as an initial dissimilarity. These are summarised here:

- ▶ there is a clear dissimilarity in the companies attitude towards un-regulated earnings. Midlands had initially, and indeed continued, to adopt the view that unregulated earnings needed to come from related business development - generation principally but also appliance retail and contracting. EME initially adopted the view that unregulated earnings should be sought from areas of unrelated business development, such as security services, and from aggressive market and product development in traditional areas such as contracting. As has been shown, EME did not consider areas such as security as 'unrelated'. Rather, the Company appears to have adopted a much wider definition of what constituted its core competencies and included security as an extension of its core contracting capability;
- ▶ there is a clear similarity in the selection of a concentrated growth strategy for distribution, but as noted this is an effect of the regulatory environment rather than a conscious business decision;
- ▶ that in effect supply is no-longer an issue for either company as EME's supply business has been mitigated to PowerGen's efforts in this field, and Midlands' have been sold to National Power; and
- ▶ while both companies have attempted to make a real contribution to profitability through diversification, this has not arrived. There are differing reasons for this: in EME's case the failure of these activities led to the necessity of a turnaround strategy and return to core focus, while Midland's efforts to grow its overseas generation activity have been on a relatively small scale, although seemingly successful.

Overall there are few similarities in this sub-sample, although a more common approach may have developed if the companies had not been subject to their various takeover's, successful or otherwise. Both companies were returning to the pattern of concentrated growth in distribution, market development in supply, and considered concentric diversification. Neither appeared to be aiming towards developing a significant international presence within the industry, as Eastern has done (Section 7.2). Rather both were seeking to establish a strong position within the ESI, and possibly seeking to develop within Europe backed by their US owners.

The review of business strategies in this sub-section is not particularly illuminating, as both companies have either exited from supply, or have only limited non-regulated business activities, which have adopted primarily cost focus approaches.

Table 6.1: Content Analysis of East Midlands

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓	✓
Market Development		✓✓✓		✓ (contracting)
Product Development		✓ (through PowerGen)		✓ (contracting)
Innovation		✓	✓	
Horizontal Integration				✓ (contracting)
Vertical Integration		✓✓✓ (gas and generation)		
Concentric diversification		✓ (gas)		✓ (telecoms, metering)
Conglomerate Diversification				✓ (security)
Turnaround	1994, 1998 (sale to PowerGen)			
Divestment			✓ (contracting, security, retail)	

Table 6.2: Content Analysis of Midlands

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development		✓✓✓	✓ (overseas)	
Product Development		✓ (Dual Fuel)		
Innovation		✓ (gas)	✓	
Horizontal Integration			✓	
Vertical Integration		✓ (gas, generation)		
Concentric diversification	# water, gas networks	✓ (gas, generation)		✓ (metering)
Conglomerate Diversification			✓ (overseas)	
Turnaround				
Divestment		✓ (to NPower)		✓ (retail)

Table 6.2 Continued

Liquidisation	✓ (partial liquidation of contracting,)			
Joint Venture		✓ (gas)	✓ (generation)	✓ (retail)
Strategic Alliances				
Consortia				
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	N/A (now part of PowerGen which operates a Segmented Utility and segmented Utility Focus Approach)	N/A	N/A

Key

✓ Evidence (where company has engaged in activity of this kind)

✓✓✓ Priority (where company has been heavily engaged in activity of this kind)

(Where company has considered activity of this kind, but not acted upon this interest)

Table 6.2: Continued

Liquidisation				
Joint Venture		✓ (gas)	✓✓✓	✓ (retail)
Strategic Alliances	# Southern Electric			
Consortia	✓ (many, including Wing Merrill)			
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	N/A	Cost Focus	Cost Focus

6.5.1.1 Combinations of Grand Strategy

This section continues the work of Section 5.5.1.1, in presenting diagrammatical representations of the combinations of grand strategy witnessed in this sub-section. However, the combinations in this section vary slightly from those in the earlier chapter. Presented below are combinations which have, in effect, failed; a change from the preceding chapter which shows viable combinations. This change is justified on the following basis: (i) that both EME and Midlands' distribution businesses follow Variant 1, as illustrated in Section 5.5.1.1, and (ii) that both EME and Midlands' no longer operate in the supply business, as EME's business has been merged into PowerGen's, and Midlands' sold on to National Power. This does, however, enable an opportunity to present the highly complex multiple combination that EME operated prior to its turnaround in 1994, and to comment upon its lack of viability.

The combination, titled Variant 6, shows an organisation which displays all possible variants identified in Section 2.6.3. Therefore it was engaged in concentrated growth; concentric diversification; vertical integration; market and product development; and joint ventures, as well as conglomerate diversification, although EME would debate whether its investments in security were conglomerate or concentric diversification. If the distinction argued by EME is accepted, the combination looks very similar to that presented in Section 5.5.1.1, and associated with success. Its failure, therefore, can not be attributed to this additional activity, although this activity may be indicative of the problems leading to its failure. It is probable that the viability of the combination was undermined by a variety of factors. As the narrative presented above indicates, confidence in EME was low due in part to the wide ranging nature of its activities. This suggests that key stakeholders: specifically the City of London, acting for the shareholders of the Company, did not consider that EME had either (i) the leadership nor (ii) the resources to follow such a combination through to success. This highlights a serious observation that must be made in relation to strategic combinations, and that is that merely arriving at the right combination is not a guarantee of success. There is also the relationship of strategy to the drivers of strategy to be considered.

6.5.2 The Midlands RECs: Observations: Objective Two

Table 6.3 presents an estimation of the importance of the key strategy drivers for this sub-sample. Once again it is necessary to state that an accurate assessment of the impact of internal factors on strategy is difficult from the standpoint of using secondary source material. A fuller picture of the importance of leadership, and resources, will develop following the field study cases.

Variant 6: A Failed Multiple Approach

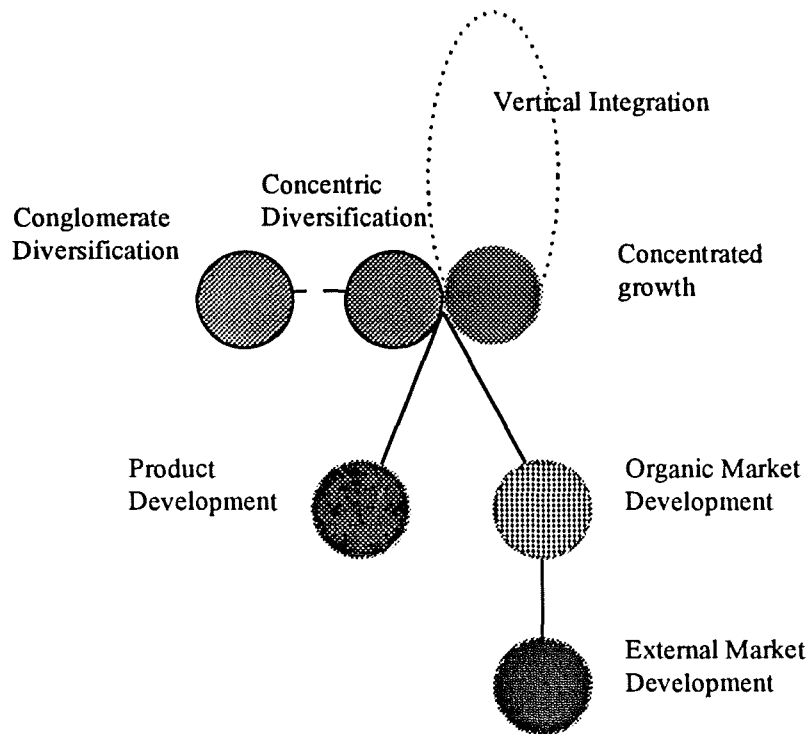


Table 6.3: Impact of Possible Strategy Drivers

	External Factors	Internal Factors	Leadership	Regulatory
East Midlands	✓✓✓	✓✓✓	✓✓	✓✓✓
Midlands	✓✓	✓✓	✓✓	✓✓✓

The above analysis is subjective; with the author estimating the impact of the respective drivers based upon the outcome of the content analysis and indicating a higher suspected impact by a higher number of ✓'s, and reflects the difficulty of interpreting causal relationships from secondary data. Allowing for the tentative nature of the analysis, the following observations are drawn:

- ▶ the key driver of EME's approach was, initially, its leadership in seeking a very expensive strategic programme. Latterly, as was shown, external factors influenced the organisation, leading to a turnaround strategy reflecting a possible concern over the availability and suitability of internal resources. As an organisation still involved in regulated activity, the influence of regulation has been considerable throughout. At the present time another influence is key, and that is the ownership of EME by PowerGen; and
- ▶ the key drivers of Midland's early approach would appear to be a combination of

all four drivers, with no one predominating. As a company seeking market development, it was influenced by external factors, while it was a larger organisation suggesting that the availability of resources enabled the chosen approach. As was shown in the narrative, the approach was also very much a product of the Company's leadership. Today, the principal driver is regulatory, reflecting the fact that the Company no longer engages in the principal competitive business.

This sub-sample therefore presents an interesting case study of the relative impacts of (i) companies with boundless ambition but limited resources and (ii) companies with limited ambition but appropriate resources, and the result that these combinations have upon the success of strategy. It would appear the case that when EME brought its ambition into line with its resources, it more noticeably prospered.

6.5.2.1 The Question of Leadership

As the analysis has shown, at the time of privatisation both EME and Midlands had boards comprised mainly of managers drawn from the ESI. The exceptions were the Finance Director and Executive Director for Engineering within Midlands, who both came from industrial backgrounds. Essentially, and despite this difference in personnel, the expectation would be that both boards would conform to the expected pattern of behaviour of utility managers - conservatism, a cautious approach to commercial activities, and a focus upon the core engineering business. While this largely held true in Midlands, it was completely unfounded for EME. EME were the most adventurous of the RECs in the period 1989-1994, and undertook the most risky conglomerate and concentric diversification decisions. Clearly, there was no link here between traditional utility experience, and a lack of adventure. However, the subsequent failure of EME to satisfy the City led to major changes in leadership and the development of an approach much closer in fact to that of Midlands, which has maintained roughly the same senior management team to the present day despite US ownership, and the divestment of its supply business. However, EME had at the time of its takeover by PowerGen a main board principally drawn from a non-ESI background, suggesting that in their case at least the lessons of failed divestment had been learned and managers recruited specifically for their ability to retain a core focus.

6.5.3 The Midlands RECs: Other Observations

The first such observation relates to the structure of organisations. As Table 6.4 shows, there was considerable similarity between the structures of EME and Midlands at the beginning of the period. Initially, both operated functionally structured organizations with

geographically oriented operating divisions in the field. Arguably, they may have aspired to a divisional structure but fell into the trap, identified by Miles and Snow, of seeking to retain “extensive corporate staff coordination” (Miles and Snow, 1992, p.61). Both developed more classically divisional structures as the period progressed. Each companies are now in much diminished states, for differing reasons. The loss of its supply business has left Midlands a functionally structured business, with some separate subsidiaries. EME has now been mitigated into the structure of its owner, PowerGen, and only exists as separate businesses within a wider divisional structure.

Table 6.4: Structural Matrix

	East Midlands	Midlands
Initial Structure	A Functionally Structured Organization with geographically oriented operating divisions	A Functionally Structured Organization with geographically oriented operating divisions
Current Structure	Separate Businesses within a Product Focussed Divisional Structure	Functionally Structured Organization
Major Changes (dates/changes)	Restructuring 1994, 1996; Takeover by Dominion Resources, 1996, and PowerGen, 1998	Restructuring in 1994 saw the introduction of a divisional structure, but sale of supply returned Company to a functional structure

In respect of other key issues that emerged from Chapter Two, it is clear that a variety of approaches to strategy have been evident. Midlands has been a more planning oriented company throughout, while EME may have adopted a strategy as pattern approach initially, although that was reigned in somewhat following the Company’s turnaround. After the same fashion, strategy making has been in turns emergent or prescribed.

6.5.4 Midlands RECs: Concluding Remarks

As with the conclusions drawn at the end of the preceding chapter, it would appear that the analysis of this sub-sample has shown the existence of differing strategic approaches. The evidence presented suggests that EME’s initially more broadly focussed assessment of what constituted core business, or even what businesses it could expect to prosper in, is at least similar to the approach developed by Norweb (Section 5.2). Midlands’ approach, while not focussing upon diversification to the same extent as EME’s also shows that REC managers were not inhibited by a lack of experience when trying to expand their organisations’ activities. The findings of this sub-sample support those of the preceding chapter - that evidence of more entrepreneurial attitudes were prevalent in REC boards dominated by industry managers, which runs counter to the expectation. The

impact of individual leaders will be explored in Chapter Eight. What is clear here is that the two companies were more entrepreneurial and this may reflect more confidence in their operating areas, indicating that geography may have been a factor.

EME and Midlands both provide examples of companies who, initially at least, adopted wider definitions of what constituted their core competencies. EME was perhaps the most extreme example of this approach. It had stated early in this period that security systems, because they involved aspects of electrical wiring common to its contracting business, fitted into its core competencies. Involvement in security therefore was a concentric diversification. To non-EME observers, security systems represented a conglomerate diversification, and hence was identified with risk. Midlands' principal diversification was in domestic and overseas generation. The initial impression of this extended core competence was also to view it as risky, even though both investments in generation and in overseas activities are now normal in the sector.

This perhaps suggests that the principal determinants of company policy, in the case of EME especially, have been external. The turnaround pursued by EME between 1992 and 1994 was largely a response to the perceived concerns of the City of London to the direction that the Company's strategy was taking it, and the fact that its share price was consistently lower than the average. When the Company re-focussed upon a narrower core range of activities, the City's perception of it changed and its risky status was removed. Midlands' commitment to generation similarly led the City to mark down its shares, but the external factor with the most impact upon that company was external ownership. Once again, as with the companies of Chapter Five, the impact of new owners has been considerable for both Midlands and EME. Prior to its take over, Midlands styled itself an 'Energy Company' and was the most pro-active REC in terms of overseas investments. Now it is a narrow distribution company. Prior to its takeover, EME was in turn the most adventurous REC and then one of the most effectively managed. Now it is a subsidiary of a much larger company.

Overall, therefore, there is once again little evidence of companies adopting identical approaches, although once again there are clearly some discernable trends emerging at the conclusion of examinations into half of the RECs. This chapter has detected some influence of geography and regional affluence upon behaviour, but has identified the personality of leaders, and the impact of external factors as the key drivers of strategy. These views will be explored at greater length in Chapter Eight.

6.5.5 The Agricultural RECs: Observations: Objective One

This section continues the work begun in Chapter Five, and readers are referred to Section 5.5.1 for an explanation of the process. Table 6.4 and 6.5 present a summary of the key corporate and business strategies employed by the sub-sample during the period. The relative importance of each strategy to each company is shown. What is striking about this sub-sample is the similarity of the approach of these companies, suggesting that the impact of geography is significant here. What is also evident is the impact of ownership upon the new directions each company pursued after 1995. Firstly, the similarities.

At the beginning of the period, both companies announced an intention to focus upon the core distribution business. Both companies initially lost supply customers, with SWALEC's losses the more substantial, but decided against entering into a cost leadership competition with larger and more affluent competitors. Both companies sought to defend their existing and remaining supply customers by means of enhanced service, a focussed differentiation or benefit approach. This was particularly the case for SWEB which was among the most innovative of the RECs in relation to customer service. However, both companies operated in harsh climates where inclement weather could impede service delivery, and hence this differentiation focus approach yielded mixed results. Both companies sought to develop non-regulated incomes from telecoms and generation. Both were members of the Teeside Power joint venture, aiming to support their supply activities by securing access to cheaper fuel supplies. Both sought to enhance this approach by developing other generation activities, mostly through renewable sources.

At takeover the differences between the strategic objectives of Welsh Water and Southern Company became clear. Welsh Water/Hyder clearly sought to develop by focussing upon core businesses, and as a consequence set about rationalising the business activities of SWALEC, leading ultimately to the sale of the SWALEC electricity and gas supply business to British Energy. Southern saw SWEB as a growth business, and sought to break out of the core concentrated growth focus by undertaking aggressive market and product development activity driven by the convergence of the gas and electricity industries. They sought also to significantly increase their involvement in generation, seeking to become a fully integrated major player in the UK.

The difficulties experienced by both Hyder and Southern in accomplishing their objectives led to further reappraisals. Hyder's problems stem mainly from the requirements of the water regulator, which has led to a further rationalisation of its business and the possible sale of water concerns, and the actual sale of its distribution business, ironically to WPD, the new company name of SWEB.

Table 6.5: Content Analysis of SWALEC/Hyder

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development	✓ (regional development)	✓ (gas)		✓ (contracting)
Product Development				
Innovation				✓ (telecoms)
Horizontal Integration				✓ (contracting)
Vertical Integration		✓ (power, purchasing, generation)		
Concentric diversification		✓ (gas, generation)		✓ (telecoms, motorways)
Conglomerate Diversification				
Turnaround				

Table 6.6 Content Analysis of SWEB/WRD

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development	✓ (regional development)	✓✓✓		
Product Development		✓ (duel fuel, green tariffs)		
Innovation			✓ (windpower)	✓ (telecoms)
Horizontal Integration	✓✓✓ (Swalec)		# National Power, own generation	✓ (retail)
Vertical Integration		✓ (energy purchasing, generation)	✓	
Concentric diversification		✓ (gas, generation)		✓ (telecoms retail & network)
Conglomerate Diversification				
Turnaround				

Table 6.5 Continued

Divestment	✓ (to SWEB/WPD)	✓ (to British Energy)		✓ (retail, telecoms, various water related activities)
Liquidisation				
Joint Venture		✓ (gas)	✓ (Teeside Power)	✓ (telecoms, Hyder Laing)
Strategic Alliances	# Welsh Water, before takeover			
Consortia	✓ Cardiff Bay Development, as SWALEC, ✓✓✓ numerous as Hyder			
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	N/A	N/A	N/A

Key

- ✓ Evidence (where company has engaged in activity of this kind)
 ✓✓✓ Priority (where company has been heavily engaged in activity of this kind)
 # (Where company has considered activity of this kind, but not acted upon this interest)

Table 6.6: Continued

Divestment		✓ (to London Electricity)		✓ (retail, contracting, telecoms retail)
Liquidisation				
Joint Venture		✓ (gas)	✓ (Teeside Power)	✓ (retail)
Strategic Alliances				
Consortia				
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	N/A	Cost Focus	Cost Focus

As such, there is no longer a company that is identifiably 'SWALEC' remaining within the electricity industry. One core business has already been absorbed by a generator (British Energy initially, and now the Scottish and Southern Group), while the other has been taken over by WPD. Southern has effectively retreated to its core distribution business, but in succeeding in buying the SWALEC business from Hyder shows that it is still seeking market development through horizontal integration. However, the remainder of its ambition to become a large player in the UK market has lapsed, and its European focus is now principally centred upon Germany.

In short, therefore, the geographical location of each of these companies and the restrictions this imposed was initially a limitation upon their strategic ambitions. Changed ownership brought a changed strategic direction for each, and the end of their immediate similarity. However, both Hyder and Southern's growth plans in the UK, can be seen to have failed to achieve their intended objectives leading to processes of rationalisation which have effectively ended the existence of one of the companies, and restricted the future activities of the other.

The review of business strategies in this sub-section is not illuminating, as both companies have exited from supply, or have only limited non-regulated business activities, which have adopted primarily cost focus approaches.

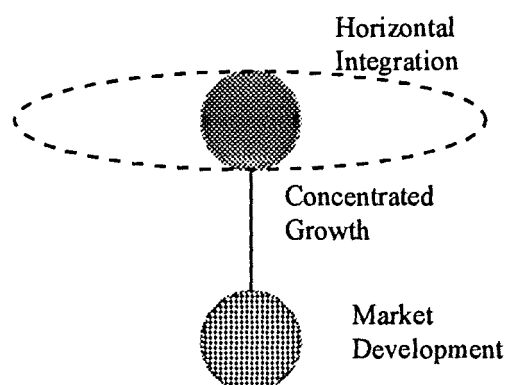
6.5.5.1 Combinations of Grand Strategy

This section continues the work of Section 5.5.1.1, in presenting diagrammatical representations of the combinations of grand strategy witnessed in this sub-section. However, this is necessarily limited as SWALEC in effect no longer exists, and SWEB/WPD is no longer involved in supply. However, the variant presented by SWEB/WPD in distribution; Variant 2B, is worthy of consideration, as it presents a combination that up until this point, not been witnessed.

This approach is the first significant extension of the concentrated growth approach in distribution, and presents a possible, although limited, blueprint for future development in the industry. Distribution companies, as natural monopolies, face no potential threat from industry entrants. The sale of the SWALEC business, by Hyder, resulted from regulatory and cash flow problems, leading to the sale of this strategic asset. This was the first takeover of one distribution business by another, following the merger of Eastern and London to be discussed in the following chapter. This leaves only a further eight independent businesses, so the scope for this approach is limited. SWEB/WPD's decision marks an attempt to overcome the increasingly limited returns to be achieved through

distribution due to regulatory action, by expanding the size of the business, and driving even greater costs out.

Variant 2B: Extended Organic Market Development



(i) SWEB/WRD employs an extended market development approach which sees the first instance in this review of horizontal integration in distribution. The takeover of the SWALEC distribution area follows on from the limited organic market development activity the Company already undertook through involvement in regional investment schemes.

6.5.6 The Agricultural RECs: Objective Two

The same limitations as discussed in Sections 5.5.2 and 6.5.2 apply to this review of drivers of strategy, presented in Table 6.7.

Table 6.7: Impact of Possible Strategy Drivers

	External Factors	Internal Factors	Leadership	Regulatory
SWALEC	✓✓	✓✓✓	✓✓	✓✓✓
SWEB	✓✓	✓✓✓	✓✓✓	✓✓✓

Once again, the above analysis is subjective, as discussed in Section 6.5.2, and requires more in-consideration in case studies. However, and allowing for the tentative nature of the analysis, the following observations may be made:

- ▶ the key drivers of SWALEC's early strategy were an even combination of all four, with no one area predominating. This perhaps reflects the difficulty the smaller companies encountered in strategy formulation - they were constrained on all sides: by the actions of competitors and the expectations of external bodies; by their limited resources; by the regulator; and ultimately by the limited options available to their leadership. As noted previously, SWALEC effectively no longer exists as a strategic entity; and
- ▶ the key drivers of SWEB's early were very similar to SWALEC, reflecting their similarity. However, after the takeover by Southern Company, the key drivers were very clearly leadership, ownership, and regulatory. The clash between these

three factors was described in the narrative, and explains why the regulatory influences are the key at the present time.

The experiences of small companies are clearly different, therefore, to those of larger companies suggesting that resources are a key issue. Lack of resources make organisations more susceptible to external pressures, and limit the opportunity to spread the scope of its activities, limiting the options available to leaders and increasing the influence of the Regulator. The change in the outlook of SWEB after the takeover by Southern, which brought with it enhanced resources, indicates the relative importance of this strategy driver, based upon the evidence of this sub-sample. As SWEB is one of the case studies featured later in the thesis, this theme can be explored in greater detail.

6.5.6.1 The Question of Leadership

Both SWALEC and SWEB were staffed by ESI industry managers at the time of privatisation. In both cases, the exceptions to this rule were the company finance director's who in common with other RECs were recruited from industry. Both boards, therefore conformed to the industry norm:- engineers, who had been appointed from within or from other RECs, and who had little or no non-industry experience. Therefore, there would have been an expectation that each board would conform to the expected behaviour patterns of pursuing conservative strategies based upon core businesses. As Section 6.5.5 showed, this was indeed the case with these two RECs. Both SWALEC and SWEB underwent marginal change during the period, but none of the senior managers brought into the companies, or promoted from within, can be said to have had the same sort of impact as, for example, John Devaney at Eastern or Ken Harvey at Norweb. The takeover by Welsh Water and the formation of Hyder effectively ended SWALEC as an organisation, although the impact of senior managers within Hyder such as John Roberts have been considerable. The impact made by Gene Klappa within SWEB was considerable, in terms of the strategies pursued (Section 6.5.5) as well as the organisation's operational culture. Klappa and colleagues brought American business concepts and values to the Company and changed it completely. However, the problems which faced SWEB and its expansion plans ultimately ended that experiment and brought back a more conventional UK utility management structure to Western Power Distribution.

6.5.7 The Agricultural RECs: Other Observations

The first such observation relates to the structure of organisations. As Table 6.8 shows, SWALEC and SWEB adopted quite different structures at the opening of the period. SWEB in fact entered the period with one of the more sophisticated organisational

structures, gaining it perhaps two years advantage upon some of its rivals including SWALEC⁸. The Companies both experienced initially similar receptions from analysts and observers, suggesting possibly that the structure adopted does not have particularly dominant impact upon business performance. However, as the question of performance is subjective, and especially so in the case of SWALEC and SWEB who faced harsher operating conditions than other RECs, it is not possible to expand upon this point. SWEB's structure was thought to be effective by its new owners, who sought to improve upon it only by expanding its contribution to operational effectiveness through the introduction of an internal market. However, developments since their respective takeovers have brought about considerable change within each company. SWEB, or WPD as it is now called, is a functionally structured business after the sale of its supply business while SWALEC no longer exists in a recognisable form.

Table 6.8: Structural Matrix

	SWALEC	SWEB
Initial Structure	A Functionally Structured Organisation with geographically oriented operating divisions	A Divisionally Structured Organisation by function, and by geography
Current Structure	Separate Subsidiaries of Different Parent Groups	A Functionally Structured Organisation
Major Changes (dates/changes)	Major restructuring in 1992 introduced a divisionalized structure in relation to functions and core businesses. Taken over in 1995.	Company developed an entrepreneurial ethos to enhance its divisional structure but sale of supply returned Company to a functional structure

Both of these RECs have followed fairly closely a prescriptive approach to strategy, even allowing for the internal market that was intended to be created within SWEB. The new owners of SWEB preferred a strategy as pattern approach, but made sure that the lines of command and control were firmly in place even within that framework. SWALEC was for the most part a traditionally structured, traditionally managed utility.

6.5.8 The Agricultural RECs: Concluding Remarks

This analysis has provided perhaps the first example of companies from the same sub-sample adopting markedly similar strategic approaches. Furthermore, the evidence presented in this chapter suggests that this similarity of approach was due to the marked

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This assumes that a divisional structure has inherent advantages over a functional structure. The actions of the Regulator were, however, to make a divisional structure an operational necessity for each REC.

similarities between the two companies: principally their physical and economic geography, and the impact that their physical and economic geography had upon external factors such as the City of London, the Regulator and their eventual new owners. Both SWEB and SWALEC were unarguably not blessed with the most advantageous operating environment. This led to a focus upon distribution, as the main source of revenue generation, and innovative non-regulated activities aimed at supplementing that core business. Supply was a matter of defence, rather than attack, due to the relative financial weakness of each company. Both companies, it could be argued, therefore took a more 'resource based view' of the potential of their assets and capabilities (Grant, 1991) in order to survive and prosper in the industry.

After their respective takeovers, the futures for each company were intended to be contrasting, but have resulted in a further marked similarity. SWEB, its new owners intended, was to spearhead concerted market development in UK initially and then Europe. SWALEC, on the other hand, was to contribute to the development of a synergistic and essentially regional business entity with at best national and narrowly focussed ambitions. The reasons for the failure of each new company to achieve its objectives are varied and diffuse, but have resulted in each inhabiting a form which is currently less than the sum of its original parts. SWEB/Southern failed because its ambitions were arguably bigger than the market, and its Regulator could support while Hyder failed because, arguably, a business founded upon monopoly activities under constant review could not be sustained.

Overall, therefore, this analysis does suggest that similarity of conditions - if they are severe enough - will produce similar strategic configurations. Geography, and its impact upon the views of external factors, influenced and limited organisational approach. In these cases the impact of leaders was less significant, until those limitations were overcome as in the case of SWEB following takeover where Klappa was arguably more of a determining factor on strategy development than either of his predecessors. However, in both cases, the impact of the Regulator has been crucial: in blocking SWEB's business objectives; and imposing stringent demands on Hyder's regulated core businesses. These views, and their relationship to the factors affecting the other companies of the industry, will be explored at length in Chapter Eight.

Chapter Seven The Southern Suburban RECs

7.0 Introduction

This chapter continues the work begun in Chapters Five and Six, with respect to the reporting of the preliminary stage of the research. In a similar fashion, the aims and objectives of this chapter are concurrent with those identified for Chapter Five, in Section 5.0. The frameworks of analysis and reporting utilised in this chapter are also concurrent with those identified in Section 5.0.

The Southern Suburban sub-sample includes the remaining four of the RECs: Eastern Group (Section 7.1); London Electricity (7.2); Seeboard (7.3); and Southern Electric (7.4). In characterising the companies of this sub-sample, Holmes noted the following as being key similarities between the companies and the markets they served:

- ▶ that the four were among the biggest of the RECs;
- ▶ that their franchise areas were among the most affluent; and
- ▶ that although there was limited industrial demand throughout the region, there was growing commercial and domestic demand reflecting growing regional affluence and an increasing population.

Holmes therefore implies that the companies of this sub-sample would be expected to be among the strongest and most confident of the RECs, drawing strength from their solid and growing markets. Demand would be high and growing, and none of the companies would be unduly threatened by the loss of large customers. Indeed, the companies of this sub-sample would in all probability have to wait for the opening of the 100kW and full domestic markets in 1994 and 1998 respectively, to experience the impact of supply competition. There was an implicit suggestion that these would be the companies leading the industry.

7.1 Eastern Electricity

Eastern Electricity is the REC for East Anglia. The Company's operating franchise covered an area of approximately 20,300 square kilometres and included all of the counties of Norfolk, Suffolk and Hertfordshire, most of Cambridgeshire, Essex and Bedfordshire, part of Buckinghamshire and Oxfordshire, and the Northern Suburbs of London within its boundaries. The range of customer types within Eastern's boundaries is diverse, including densely populated urban areas, as well as sparsely populated rural

areas with agricultural demand, as well as an increasing demand from manufacturing and commercial business, including the ports of Felixstowe, Ipswich, Harwich and Tilbury and the airports at Luton and Stansted. Eastern's area is generally seen as being one of the most economically prosperous in the UK. The Company is headquartered in Ipswich. Eastern is primarily of interest given its position as one of the two largest REC's, and its longstanding reputation as an aggressive company aiming to become the industry leader. The Company entered the new competitive era with a reputation of being: the most efficient REC, in terms of manpower per unit sold (Wilkinson, 1988b); the most advanced technically, with a higher investment in computing than any of the other RECs; and as one of the most prepared for the new demands of the market. As the period began it was already aggressively marketing itself, and had identified a whole raft of new skills it needed to develop for the new operating environment, including capability in writing contracts, in finance, taxation, planning and law as well as investor relations. It had not, however, developed beyond a functional organisational structure at the time of privatisation.

7.1.1 Key Events: 1990-2000

As reported in Section 7.0, Eastern was one of the RECs of which the most was expected in the new competitive era. Early statements from the board at Eastern indicted that the Company was keen to grow, but that their strategic approach to achieving growth was likely to be different to that witnessed at, for example, EME (Section 6.1), as Eastern had indicated a preference for a strategy based upon organic growth. In the issue prospectus, Eastern identified its principal strategic objectives as being:

- ▶ to seek improvements in productivity and efficiency in pursuit of real earnings growth principally through its core distribution business, while expecting supply to contribute a small profit;
- ▶ to continue its policy of building a strong brand name for the Company;
- ▶ to engage in generation projects to produce profits for the Company; and
- ▶ to continue operating existing businesses to take advantage of business opportunity as it arose (Kleinwort Benson, 1990, p.168).

The message sent out by the original objectives was distinctly different from that sent out by EME, relying principally upon cost control for its competitive advantage. However, for the first two years after privatisation, Eastern did not seek to employ strict efficiency measures in support of its stated approach, resulting in a low rating from the City despite its position as one of the biggest and theoretically most favoured of the RECs. In short, the City approved of the Company's focus upon generation, but disliked its failure to cut costs. This suggests an inherent incongruity within the strategic direction adopted by

Eastern. Some elements of a cost leadership approach were present, but some were not. An early indication of a focus upon backward vertical integration came with Eastern's decisive early movement into generation, a decision heavily influenced by the then Chairman of Eastern, James Smith (Thomas, 1990f). The offer prospectus revealed an aim to invest up to £31 million in generation over the first three years, and within that time Eastern had:

- ▶ formed a joint venture with Hawker Siddeley to plan, build and operate Peterborough Power, a 340MW gas cycle generator (Samuelson, 1989f);
- ▶ actively explored the possibility of a joint venture to build the world's first offshore wind turbine (Newham, 1989);
- ▶ reported interest in taking a stake in BNFL generating plant (Thomas, 1990f);
- ▶ announced a plan for a new 380MW generator at Lawford, in a joint venture with Enron (Pearson, 1991a).

Additionally, Eastern was among the first of the RECs to establish a gas marketing subsidiary: e gas, in a joint venture with Utilicorp (Sychrava, 1991e). This move indicated that the board was of the view that in the future the gas and electricity markets would increasingly converge. The publication of the first year results saw the Company receiving a favourable response from the City as these early movements into generation were perceived as sensible and cautious. However, the City also marked the Company down for its failure to realise the positive benefits of a strict efficiency regime in its distribution business.

The second year after privatisation saw the Company continue upon the road towards greater involvement in generation, while at the same time seeking to resolve its problems with efficiency, of which more was expected (Sychrava, 1992f). The new focus upon cost reduction appears to have resulted from the appointment of a new Managing Director, with experience gained in the industrial sector. To an extent, this change in emphasis must be represented as an attempt to turnaround the Company, but that the perceived need for this action was not as great as that witnessed with EME. However, the Company was not performing to expectations, and consequently action was required. Interim reports showed an immediate effect, and indicated that following the remedial action Eastern had the lowest prices, as well as lowest costs in the industry. Costs had mainly been reduced by harsh trimming of staffing levels.

In the 1993 Annual Report, Eastern's three key objectives were set out by the then Chairman. These were to:

- ▶ optimise returns from the supply and distribution of electricity;

- ▶ provide top quality service across the company; and
- ▶ develop profitable new business outside the sphere of regulation.

(from Smith, Chairman's Statement, Annual Report and Accounts, Eastern Electricity, 1993).

In effect, this was principally a restatement of the original corporate objectives, except that the desire to develop new income generating activities was more forcefully stated. In short, the Company committed itself to effectively manage its existing businesses, and to seek new business opportunities more aggressively. In support of these newly revisited objectives, the following actions occurred across the various operational areas of the Company:

- ▶ the establishment in 1994 of full ownership of Peterborough Power (Smith, 1994k);
- ▶ the taking of equity shares in Barking Power, Fibropower Ltd, and Fibrogen Ltd;
- ▶ the taking of shares in the output of various North Sea gas fields: the Johnston gas field (Anon, 1993c); the Schoner gas field (Smith, 1994k); and the Tyne gas field (Anon, 1995a);
- ▶ the establishment of e gas in 1991, followed shortly by a change of name to Eastern Natural Gas. Eastern was reported to be one of only two RECs that sought to compete on a national scale in the area of gas retailing (Wighton, 1995e);
- ▶ became the most active REC in seeking new 100kW customers after market liberalisation (Smith, 1994a) including, for example, winning the contract for all of the McDonalds restaurants in UK (Smith, 1994b);
- ▶ actively seeking to improve the value-added element of its supply products to large customers, through consultancy in energy efficiency measures, and so on, as the following statement from McDonalds shows:

"EE's willingness to supply power and other facilities as part of the service yet still undercut offers from rival power companies was one of the reasons why they won the business" (Smith, 1994b);

- ▶ the freezing of domestic electricity prices at 1992 levels in 1993, and again in 1994;
- ▶ the introduction of performance related pay and ending of union involvement in pay bargaining (Taylor, 1994);
- ▶ divestment of its retailing operation in 1995 (Buckley and Smith, 1995); and
- ▶ managing the largest staff reduction programme in the ESI, which saw 1100 jobs cut in 1991, and continued with the loss of 1250 jobs in the year to September 1993, including shedding of 100 contracting jobs with the aim of making the Company's contracting operation profitable, and a further 200 jobs cut as two

customer service centres were established replacing 10 local offices within the regional area. A further 400 jobs were cut in 1995.

Eastern, therefore, was an organisation that possessed a very clear understanding of its principal strategic objectives from an early stage of the new operating era. Firstly, the Company was determined to stick to areas that it knew, distribution and supply, and aimed to win new customers by virtue of lower costs and greater efficiencies. This aspect of its strategy was not fully formed until the importance of cost reduction became apparent in 1992. Secondly, the Company understood the importance of backward vertical integration as a device for driving out cost, and for ensuring control over their operating process¹. Thirdly, the Company appreciated the value of market development, and of the opportunity for growth offered by the liberalisation of energy markets in the UK. In the view of analysts the Company was, in 1995, innovative and the sector leader having developed a coherent strategy for growing out of the core business, to become an integrated energy company with in particular major upstream interests (Smith, 1995f). Much of this success was attributed to the influence of the Managing Director and the Finance Director: Devaney and Anstee, both of whom were not ESI men.

There is evidence, provided by examples like Eastern's approach to large potential customers such as McDonald's, and Eastern's venture in the domestic gas market, of what Chrisman *et al* (1988) identified as a segmented utility focus approach. Within the industry, cost is the key consideration in holding on to market share, marking the industry out as a commodity market. However, competing upon cost is not enough, and some form of differentiation is also necessary to win market share, hence the utility strategy. This element of competition in the industry suggests that the industry does not conform, for example, to Porter's analysis. This discussion will be returned to in Chapter Eight and Twelve. Some companies, like Eastern, have offered consultancy services while others have offered bundled services to create this competitive advantage through differentiation. Eastern has recently entered into affinity association with Barclaycard in an attempt to differentiate itself from other suppliers of electricity.

Eastern was subject to an agreed takeover bid by diversified conglomerate Hanson on 31 July 1995. The successful bid was £2.5 billion. Market analysis expected an agreed bid, as Eastern's investment activities were seen to preclude an exhaustive defence on the

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The extent to which this was a 'strategic' decision is returned to in Chapter Nine, which presents a more in-depth case study of Eastern Group.

Company's part due to a lack of available capital. The parties involved in the bid rejected this analysis and portrayed the deal as being a logical extension of each company's strategy. Hanson gained, in its view, the strongest and most competitive REC in the industry (Wighton and Smith, 1995), while Eastern gained the financial backing to advance its aim of becoming a fully integrated energy organisation. Finance Director Anstee expressed the view that Eastern "started to recognise that being bigger would be better on a number of fronts" (Wighton, 1995a), especially in generation and gas. Being part of Hanson, it was argued, would enable Eastern to grow in these non-regulated areas at a much faster pace than if the Company remained independent. Prior to the takeover, Eastern was already:

- ▶ the largest supplier of electricity out of its own region;
- ▶ owned the most self generation plant; and
- ▶ the 7th largest purchaser of gas in the UK, for retail or generation.

The first demonstration of this objective came with the early attempts to lease, over an extended period, generating capability from the main national generators. Both of these generators were obliged, by the industry regulator, to divest a certain proportion of their capacity to encourage the growth of competition within the generation industry (OFFER, 1996). Eastern was the principal bidder for this capacity, and was successful in leasing 600MW of generating capacity from National Power (Wighton, 1996) and PowerGen (Holberton, 1996f). As a consequence Eastern became the third largest conventional fuel generator.

The takeover by Hanson precipitated a major organisational change intended to further enable the Group to meet its corporate objectives. Eastern was demerged from Hanson to form The Energy Group, which also included Hanson's US coal interests (Holberton, 1997d). Eastern remained very much a separate entity, retaining operational control and with guarantees of financial support from the senior managers of The Energy Group. Its managers expected to be able to pursue their original objectives from within this new structure, but upon a wider international stage. However The Energy Group was fated not to be in existence for very long, as it was purchased in early 1998 by Texas Utilities (TXU), of Dallas, Texas (Lewis and Taylor, 1998). Eastern is now an integral part of TXU's global strategy, and with that role has had to cede some managerial initiative. It continues to pursue a very aggressive market development strategy in electricity and gas supply, leading to its takeover of the Norweb Energi business. It has developed a new core competence in electricity trading which drives all of its generation assets, and also its supply activities to a large extent. It has also sought, through a proposed joint venture with the distribution business of London Electricity, to continue to pursue an extended

concentrated growth in this sector of its business. Arguably, however, the Company's focus upon energy trading has meant it is perhaps the only REC for whom distribution is no longer the key core business activity.

7.1.2 Structure of Eastern Group

In this section, the management and organisational structures of Eastern Group are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure up until the takeover by Texas Utilities. At privatisation, the Executive Directors on the Main Board of Eastern were as follows:

Name	Position	Joined Eastern in	From
James Smith	Chairman and Chief Executive	1982	East Midlands Electricity
Walter Waring	Managing Director	1983	East Midlands Electricity
Laurence French	Personnel and Public Affairs Director	1969	National Coal Board
Richard Leveritt	Finance Director	1970	North Western Electricity
Douglas Swinden	Marketing Director	1987	East Midlands Electricity
William Watson	Engineering Director	1986	London Electricity

All of the Eastern Board were ESI men, and the majority were engineers. Therefore Eastern conformed very closely to the archetypical REC model. Indeed the appointment of Leveritt from within as Finance Director meant that the Company initially had even fewer senior managers with experience of other sectors than their contemporaries. As noted in Section 7.1.1, Eastern made a slow start to life after privatisation and in 1992 decided to change the composition of their main board as a precursor to turning the Company's performance around. Waring retired, and was replaced by John Devaney. Devaney brought with him experience of a wide range of industrial sectors, most recently the US motor industry, and was appointed Managing Director. Other significant appointments followed with Steve Connock (Personnel and Corporate Affairs Director) and Eric Anstee (Group Finance Director) arriving in 1992 and 1994 respectively and other managers were redesignated: Swinden to Group Strategy Director, Watson to Managing Director of Eastern Generation. Devaney became CEO in 1993, and when Smith retired in 1995 he was replaced as Non-Executive Chairman by Niven Duncan. This team led Eastern into the takeover by Hanson. During the time the Group was owned by Hanson, small changes occurred, and Devaney remained CEO until the takeover

by Texas Utilities in September 1998.

Although there does not appear to be any evidence of pressure being applied by the new owners on the management team which had convinced them to pay £4.45 billion for the Company, it is clear that many of the existing managers were seeking new challenges. In addition to Devaney's resignation, Anstee had resigned in September of 1998. They are now working together on new projects within the energy industry. Connock had resigned in 1997, although ill health played a significant part in this decision, and Watson had resigned in March 1998. Swinden retired in 1996.

The new board consisted of: PC Marsh, replacing Anstee; Jim Whelan, who had been running the Eastern Power and Energy Trading (EPET) division and who had been appointed a main board director for the same business; Jim Keohane, who joined Eastern from East Midlands in October 1997 to take over as Managing Director-Energy Retail, while David Huber joined the Company from Safeway in September 1997 to become Group Human Resources Director to replace Connock. David Owens joined Eastern from ABB as Managing Director-Networks in May 1998, while Jarrell Gibbs was appointed to the board from Texas Utilities, the new owners, in July of 1998. Devaney initially remained with the Group as Non-Executive Chairman. His eventual replacement was Philip Turberville, who joined Eastern in January of 1999 from the Royal Dutch Shell Group of companies, where he was President of Shell Europe Oil Products, responsible for refining and marketing activities in 26 countries. Prior to this post, Turberville was Vice President of Planning and Finance and Chief Financial Officer, Shell Oil Company, USA.

The latest significant changes in the senior management structure of the company has come with the merging of the networks business of Eastern and its neighbour, London Electricity. David Owens has been named as the Chief Executive designate of the joint venture company, subject to regulatory approval being granted. David Jefferies, former Chairman of the National Grid Group, has accepted an invitation to become non-executive Chairman of the new company, called 24seven. In addition, in December of 1999 Roger Partington was appointed President of Eastern Energy, the electricity and gas retail business. Partington was previously Main Board Director responsible for Customer Development with Safeway, having joined the company as its Marketing Director. Prior to that he was Marketing Director at Nestle UK.

Clearly, the process of introducing commercial expertise has continued throughout the period. None of the original board remain, but the Company still retains managers with

previous experience of the electricity industry, in Whelan and Keohane. It is noticeable that while the new owners have made appointments, the only appointment not prompted by a resignation was that of Partington. This differs considerably from the experience in other RECs which, having been taken over by foreign owners, have seen considerable expatriate involvement in their management. Clearly, however, Eastern as a company is now attracting senior managers of considerable commercial experience, reflecting the distance it has travelled in ten years. The current main board of Eastern/TXU Europe is:

Phil Turberville, Chief Executive*

David Owens, Chief Executive Officer, Networks and Executive Vice President, TXU Europe*

David Jephson, Director of Information Technology

David Huber, Human Resources Director*

Eddie Hyams, President - TXU Europe Power*

Phil Hardy, Head of Group Regulation, TXU Europe, Senior Vice President

Tony Holmes, Chief Operating Officer, Eastern Energy

Martin Stanley, President - TXU Europe Power and Energy Trading*

Paul Marsh, Chief Financial Officer*

Joy King, Director of Corporate Communications

Roger Partington, President, Eastern Energy*

* signifies main board member

The board of TXU Europe looks less like the other REC boards presented in this thesis, and more like the board of a conventional non-utility company. The presence of director's of IT, Corporate Communications and the amount of experience the board can provide from the marketing function indicates that it has moved further than most of its peers arguably towards a different industrial sector altogether.

In respect of its organisational structure, at the beginning of the privatisation process, Eastern operated using a two-tier structure comprising a Head Office, and eight managed areas through which most customer contacts were conducted. Head Office was responsible for the management of the principal businesses and for the centralised functions of finance, public relations, personnel, computer operations and the secretariat. From this early stage, there was considerable delegation of responsibility to the operational areas, which were established as profit centres in order to more effectively facilitate the meeting of performance objectives. The relationship between the different levels, in terms of responsibility and decision making was complex, as the following extract from Eastern's issue prospectus shows: "The Directors are responsible for policy, strategy and the profitable performance of Eastern Electricity. Operational management of Eastern Electricity is by Executive Directors and Area General Managers. Greater

emphasis will be placed upon the profitable operation of the separate businesses and each is headed by a manager who reports directly to an Executive Director. The Area General Managers are responsible for the day to day conduct of the businesses in their areas and are supported by Area Business Managers. This matrix structure operates within the overall framework of central planning, target setting and control of the Company by the Executive Directors" (Kleinwort Benson, p.184-185).

At the beginning of the period, therefore, Eastern was attempting to develop a structure that resembled a divisional structure, but with limited decision making for operational managers, and strict centralised command structures to ensure that senior managers managed the direction of strategy. The structure was therefore something of a hybrid, attempting a divisional structure but maintaining functional control systems.

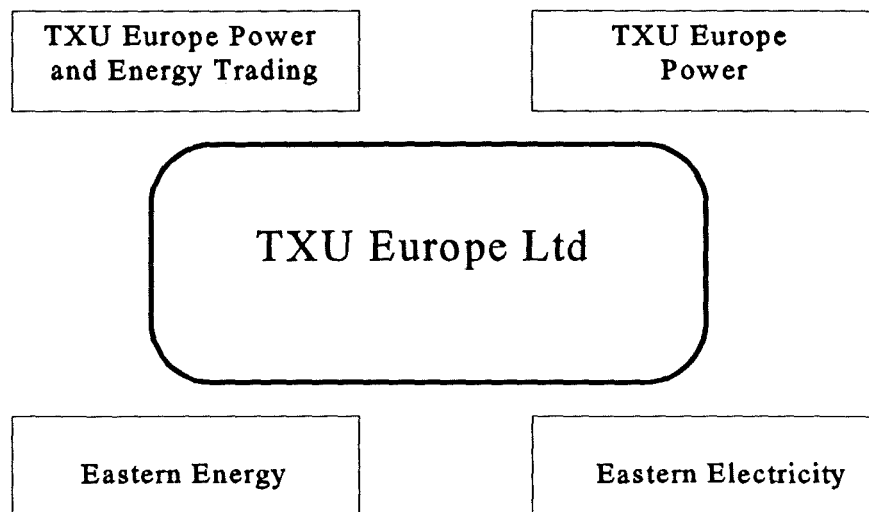
As the Company developed, and especially following the change in management in 1992, accompanying the turnaround of the Company's activities, Eastern developed a more recognisable divisional structure, with an increasing amount of decision making being delegated from Head Office to the separate business units. The Company established a series of "free standing businesses for each activity" (Eastern Group, 1994), and in reflecting this significant change in the status of each of its activities, changed its formal designation from Eastern Electricity to Eastern Group (Eastern Group, 1994, p.5). In this new structure, Head Office's day- to-day involvement in decision making was reduced to setting overall objectives, and managing certain key functions that were more economically managed centrally on behalf of the group. Day to day strategic decision making was passed to managers in each of the separate business units.

As has already been mentioned Eastern has been taken over twice, first by Hanson (Wighton and Smith, 1995) and second by Texas Utilities (TXU) (Taylor, 1998b). During the Hanson/Energy Group period of Eastern's existence, its structure remained unchanged. However, following the takeover by TXU, changes have occurred. Eastern has now been integrated into TXU's wider business activity in Europe. While the activity and identity of some of its businesses, most notably Eastern's distribution business, have remained relatively stable, other businesses have changed. As can be seen from Figure 7.1, TXU Europe's structure emphasises a wider set of operational priorities, reflecting recent changes in the nature of the industry.

TXU's emphasis is now focussed upon extending Eastern's own energy trading activity and upon building generation capability, rather than upon its supply and distribution businesses. Interestingly, as will be discussed below, Eastern Electricity and London

Electricity have begun the process of merging their distribution businesses, perhaps as a recognition of an increasingly difficult regulatory climate, and the need to locate other answers to the problem of the reduced profitability of distribution.

Figure 7.1: Group Structure of TXU Europe



7.1.3 Strategy Decisions at Eastern Group

Eastern presents an interesting portrait of a company that turned itself around in pursuit of a dominant role in the market. As indicated, Eastern was a company that had committed itself to "central planning, target setting and control of the Company by the Executive Directors" (Kleinwort Benson, 1990, p.185), and as such was committed to the pursuit of a prescriptive strategy process. The Company's early performance suggests that they had not arrived at a satisfactory strategy-structure-performance configuration. This failure resulted in a change of senior management and the turnaround strategy between 1992-1994, accompanied by a change in emphasis, and the development of a more emergent approach. In keeping with the concept of emergent strategy, objectives were clearly set by senior management, but they no longer prescribed the business level strategies to achieve these objectives. This perception, of the development of a more emergent approach, can be examined in greater detail as Eastern Group is one of this report's case study companies, and this debate is rejoined in Chapter Nine.

7.1.4.1 Corporate Strategy

Initially, Eastern operated within the four traditional business that all of the RECs were engaged in: distribution, supply, appliance retail and contracting. These were shortly

joined by investments in generation, and the gas industry. Over the period, a separate energy trading business has developed from out of these original business areas, and in the long run this may become the Company's operational core.

(a) *Distribution*: as has previously been noted, the scope for any company to attempt to engage in any corporate strategy that is not based upon concentrated growth in this industry is severely limited. As was noted in Section 7.1, Eastern set out with the intention to pursue a concentrated growth strategy based upon effective cost management. However, the Company was felt to have underestimated the severity required in its cost management, resulting in the need for it to follow a turnaround strategy in 1992-94, to re-focus its efforts. Since that time, however, Eastern has assiduously pursued a cost minimisation approach in pursuit of its concentrated growth strategy, with the result that the workforce in distribution has been substantially reduced. It has also been keen to explore methods which improve employee productivity and service quality within a tighter cost regime, as will become clearer in Chapter Nine.

One interesting development that the business has pursued has been the proposed joint venture between Eastern and London Electricity's distribution businesses. This decision has been identified as an attempt to continue to find added value from a business activity that has been increasingly tightly regulated by the Regulator, and is therefore undertaken in support of the underlying concentrated growth approach. This decision is the first of its kind in the industry, and may well mark a significant change in the way that all of the companies come to manage their distribution activity.

(b) *Electricity and Gas Supply*: Eastern has been from the very beginning of the privatisation period one of the RECs that has most aggressively sought a market development approach to its supply businesses. As was noted at the beginning of this section, Eastern has always been a company that has sought to create a market awareness of itself and its products, and that has not changed during this period. Eastern was one of the first RECs to identify the opportunities available to increase its market share in respect of new non-franchise customers in the 1MW and 100kW markets, and has sought a variety of product development improvements to aide its market development activity. Earlier in this section, reference was drawn to the sort of added value services Eastern provides to large customers, and to the added features it is also offering domestic customers. As the electricity and gas markets have converged, there is an emerging need to create a critical mass of customers, forcing companies to innovate and develop product packages which acknowledge the need to marry low prices with added features.

(c) *Other Non-Regulated Businesses*: At the beginning of the privatisation period, Eastern recognised that its other non-regulated business activities: appliance retailing and contracting would face difficult trading conditions, and although high expectations were not attached to either activity, the Company announced that it would seek to operate each so that a contribution to overall profitability was made. In the case of appliance retail, the Company soon realised that its operations would not be effective and profitable if some form of cost reduction did not occur. The route chosen, joint venture, was a reaction common among the RECs. In 1991, Eastern merged its retail business with that of Southern to form E&S Retail (Maddox, 1991), later called PowerHouse. Despite the fact that Midlands Electricity later joined the joint venture and further improved cost management and exposure to risk, the business was not thought to be producing sufficient returns, and was divested to Hanson just prior to Hanson's purchase of Eastern Group itself (Hollinger, 1995f). The strategy adopted in relation to contracting was similar to that of appliance retail, wherein the activity was managed as effectively as possible in difficult trading conditions through a concentrated growth approach. However, and again as with retail, the contracting business was not thought to be contributing significant returns to the Group, appeared out of place in the developing group strategy, and so was divested to a management buy out in January 1998 (Eastern Group, 1998, p.3).

(d) *Generation*: From the beginning of the privatisation period, Eastern has been the most aggressive REC in relation to its involvement with generation. Eastern was among the first to obtain planning permission to build Closed Cycle Gas Turbine (CCGT) power stations, a strategy of either concentric diversification or backward vertical integration depending upon one's view as to the potential offered by the electricity industry for vertical integration. Following that initial involvement, and the takeover by Hanson, Eastern sought to build the importance of generating within its portfolio of businesses by leasing generating plant from both National Power (Wighton, 1996) and PowerGen (Holberton, 1996f). This horizontal integration substantially increased Eastern's importance as a generator, making it the third largest non-nuclear generator in England and Wales, with 7,000MW of generating capacity at its command. Within the generation business, a concentrated growth approach is pursued, but one linked very closely to the Group's emergent energy trading activity. This complex relationship is a crucial component of the Company's approach, and is explored immediately below. As part of TXU in Europe, the Company has sought to extend its generation investment activity. To this end it is also developing generation projects overseas and currently has interests in the Czech Republic, Poland, Finland, and India: indicative of a market development approach in support of the core concentrated growth approach.

(e) *Energy Trading*: Eastern's involvement in energy trading has been an example of innovation on a significant scale within an industry where innovation is usually incremental, if it exists at all. Eastern was the first REC, indeed arguably the first European electric utility, to realise that the convergence of the electricity and gas markets provided new opportunities in the area of risk management, and more specifically managing the arbitrage between different fuel markets. Eastern's energy trading activity grew out of its previous innovative behaviour in support of its generation business. The Company pursued a strategy of backward integration in its generating business, when it developed a policy securing guaranteed access to supplies of natural gas by buying stakes in North Sea gas fields (Anon, 1993c, Smith, 1994k, Anon, 1995a). Eastern had previously engaged, as had all the other RECs, in energy purchasing activities to manage its exposure to fluctuating fuel prices. Its decision to develop energy trading as a business started from the desire to manage its own risk more effectively, and was extended by the realisation that other organisations also required risk to be managed, so presenting a new market opportunity. Having established this 'gap in the market', the strategy of the new business was immediately to seek market development opportunities. As such the new Company, TXU Europe Power and Energy Trading, has established offices throughout Europe offering innovative and bespoke packages to prospective customers, a product development activity. Eastern's energy trading business is now regarded as the customer for its generation company, which is seen as principally an asset management company concerned only with managing its assets as effectively as possible, and with all of its market risk now managed by the energy trading company. This complex relationship is explored in more depth in Chapter Nine which presents a case study of Eastern Group.

Eastern Group, therefore, after a cautious start has been the most aggressive of the RECs, and has sought to extend its business activity across the whole of the energy industry. It has pursued market development at every opportunity, and product development in supply and energy trading in particular. In addition it has been innovative: becoming the first REC to make generation a truly core business activity; being the first REC to backwardly integrate its generation and gas supply businesses by securing access to natural gas fields; and by developing energy trading as a separate business. Throughout all of its businesses, the Company retains a foundation of a concentrated growth approach, and this is especially true in distribution.

7.1.4.2 Business Strategies

As previously noted, distribution is a monopoly business, and therefore no competitive strategy can be said to be in operation, although management of costs is the key concern.

The Company's need to pursue a turnaround strategy, and the requirement to increase the severity of its cuts to operating costs, suggests that Eastern was not managing its costs as rigorously as it may have been. This is no longer the case, as the Company pursues even greater operating efficiency through its 24seven joint venture with London Electricity. In relation to its supply activities, if it is assumed that once again cost leadership is a prerequisite to enable it to compete in the industry, then Eastern has also pursued a differentiation approach, or the segmented utility approach described previously. It would be fair to say that all of the RECs that have decided to remain in supply are attempting to differentiate themselves, but that Eastern have been amongst the most aggressive in pursuit of this policy.

In its generation business, Eastern's business strategy has focussed very firmly upon overall cost leadership. As stated above, Eastern's generation activity is now solely an asset management business, making any other approach inappropriate. In its energy trading business, Eastern is focussing very much on differentiation. The rationale for beginning the business in the first instance was that no other company was providing such a service, and so Eastern achieved first mover advantages. Now, as other companies attempt to enter this business Eastern seeks to maximise the competitive advantages of being first to market, and build its reputation based upon this differentiation. In attempting to open new markets, it is also making use of focussed differentiation.

As with other RECs, therefore, it is clear that Eastern has actively developed different business strategies to meet specific market need. In businesses which are still regulated, cost is the key issue. Cost management is also the key in businesses which no longer carry competitive risk, such as the case with the Company's generation assets. In businesses where there is a high level of competition, but where the profit margin on continuing business is low, then differentiation has become all important. This is the position with supply, which was always a low margin activity, and due to competition these margins are being forced even lower. Hence, the only way in which it is possible to compete is to attempt to differentiate the package accompanying the service, rather than the service itself which must be kept low cost in order to retain competitiveness.

7.2 London Electricity

London Electricity is the REC for London. The Company's operating franchise covered an area of 665 square kilometres in the centre and southern suburbs of the UK's capital city. The Company is primarily of interest as it is the most urban of the RECs, with a disproportionate reliance upon domestic and commercial customers. At privatisation,

17% of all energy sold to commercial enterprises was sold by London (Pearson, 1990c). The Company possesses the lowest number of industrial customers, which was felt to minimise its initial exposure to the actions of predatory boards in the 1MW and 100kW competitive markets. While this provided some comfort to the company, it was presented with the unique responsibility of keeping the nation's capital supplied, leading to a higher level of scrutiny of its actions.

7.2.1 Key Events: 1990 - 2000

London entered the newly liberalised era by explaining the extent of the work that it as a company had undertaken to prepare itself for change. London's culture and the Company's way of doing things had undergone 'several revolutions' in the preceding years. In the four years prior to privatisation, costs had been reduced by 20%, and in the preceding seven years the employee head count at London had been reduced by 25%. Additionally, new information technology had been introduced to various areas of the Company, including the distribution network, the high street showrooms, company payroll, and the company telephone system. London, its managers claimed, was ready for change and focussed upon its customers (Kellaway, 1988). However, analysts still believed the Company to be ill-prepared for the new operating environment. It was thought to have higher operating costs than other RECs (Pearson, 1990c), while its managers were not thought to be particularly entrepreneurial, although this was a criticism levelled at all REC managers (Kellaway, 1988). The initial view of the senior managers was that the privatisation would allow boards to broaden the range of their business, and possibly to become better at what they already did. This is quite a contrast to the viewpoint of the board of EME (Section 6.2).

Caution was therefore the key word in the early strategic activities of the Company. Its core business, the seventh largest in the sector, was stable due to its composition. London did not suffer many raids from predatory competitors due to the proportionately small size of demand from its customers. The company was identified as being 'cautiously keen' to enter the generation industry (Pearson, 1990c), and approached its exposure in this industry exclusively through joint ventures. London's caution was again demonstrated when the Company became the eleventh of the twelve to enter into the gas market, again in a joint venture, with Total Gas Marketing (Anon, 1992g). Overall, the City saw the company as dull due to a concentration upon core businesses and an unwillingness to overexpose itself in unregulated areas.

However, and despite this dull image, the Company in the early years following privatisation achieved a number of considerable successes:-

- ▶ it claimed its price raise of 7.7% prior to privatisation was the lowest in the sector (Wilkinson, 1988a);
- ▶ it was found to be the REC with the lowest number of service interruptions in both 1991 (Lascelles, 1991) and 1992 (Lascelles, 1992d)²; and
- ▶ it came top of the Regulator's rankings, based upon the ten guaranteed service standards tested for by Offer, with a failure rate of only 1 per 10,000 customers (Sychrava, 1992g). As part of this focus upon customer service London offered to pay customers compensation if employees are over 2 hours late for appointments (Anon, 1992g).

London therefore would appear to be a company that is aiming to focus upon core business areas, and to only extend into new areas with extreme caution. The company justified this interpretation with a number of significant strategic decisions in 1992-93.

The company:

- ▶ exited from retail at an earlier stage than any of the other RECs (Adonis, 1993a);
- ▶ made early and decisive cuts to its contracting business, 300 out of 400 jobs, and announced it was abandoning appliance servicing (Sychrava, 1992c); and
- ▶ made the most significant market development advance of the early post privatisation years, in taking over the British Airport Authority's (BAA) distribution network (Betts, 1993).

The BAA acquisition was a perfect example of risk averse market development. The network fitted exactly into London's operating capabilities, and as it entailed supplying the electricity needs of Heathrow, Gatwick, and Stansted airports, it represented a major coup for London. The purchase, the largest non-core purchase by a REC up to that date, fitted the Company's strategy for non-core business development. London's strategy, as revealed by the company review of 1992-93 was "to concentrate on what we do best, building a portfolio of unregulated activities which is closely associated with our electricity business" (London Electricity, 1993, p.2). Overall, by 1993, the view was developing that London had successfully 'cleared its decks' of inappropriate business activities, and was now in a position to "diversify into areas close to the core business, utilising the company's skills and its strong financial position" (Lascelles, 1993c). This position was achieved through a major restructuring exercise, which had refocused the business upon core capability, and upon the regulatory frameworks overseeing each business stream.

2

London Electricity is an unique case in that most of its cables run underground. This means that failures are potentially more disruptive as excavation must occur first. London therefore had invested more recently in newer infrastructure which may explain the superior performance.

London was now organised around three divisions:

- ▶ Network Service;
- ▶ Customer Services; and
- ▶ Energy Services.

Therefore, the pattern that is emerging is of a company that is settling upon a concentrated growth strategy, involving prudent market development. In other words, one that is “focussed, exploiting key strengths and ensuring that we are able to make the necessary investments in our infrastructure to maintain the high standards that our customers expect” (Reid, in Chairman’s Statement, London Electricity, 1994, p.3). This approach also involves a cautious attitude to innovation. Indeed, London’s approach to innovation is characterised by its use of joint ventures, and membership of consortia as a means of achieving risk averse growth. Therefore the period from 1994 onwards saw a continuation of earlier themes:

- ▶ costs continue to be targeted, with jobs cuts resulting in £30m of savings in the financial year to June 1994 (Smith, 1994c);
- ▶ the exploration of the potential of a joint venture in the areas of customer service and information technology, offering the potential for considerable synergistic savings, with Thames Water (Hollinger, 1995e), and the exploration of the potential for merged supply activities with other local RECs;
- ▶ movement of the Company’s customer service operation to a new, cost effective call centre out of area in Wearside (Tighe, 1995), a move that proved so successful London was able to sell consulting services to other companies planning similar moves (Gooding, 1996);
- ▶ the award of BS 5750, the first to any REC, for monitoring the delivery of guaranteed standards to customers (Urwin, in London Electricity, 1994, p.7);
- ▶ the virtual elimination of residential disconnections for non-payment (Urwin, in London Electricity, 1994, p.7);
- ▶ involvement in the London and Continental consortia bidding for the Channel Tunnel rail link;
- ▶ involvement in the City Greenwich Lewisham rail link consortia;
- ▶ a strategic alliance with Thames Water, resulting in London winning a supply contract worth £100m; and
- ▶ a cut in residential bills of 16% in real terms since April 1991 (Urwin, in London Electricity, 1995, p.7).

During this time, London’s reputation in the City improved markedly. The Company was now viewed as a well managed, narrowly focussed company providing good value to

shareholders, and high quality, low cost service to customers. It must be recognised that London possessed an advantage over other RECs in that a very high proportion of its supply business was effectively 'ring fenced' and would not be 'in play' in a competitive sense until the liberalisation of the sub-100kW market intended for 1998-9. Whether the Company would have been in a position to remain focussed upon its core business if it had been losing large numbers of supply customers is of course a matter of conjecture. However, the fact that at various times London has explored the possibility of mergers, alliances or joint ventures with other retail suppliers suggests that the same concentrated growth approach based upon efficiency, service and cost leadership would have been applied.

London was purchased by US utility Entergy, during the 'second wave' of REC takeovers, at a cost of £1.3 Billion (Holberton, 1996o). Entergy defended the decision to pursue the takeover on the grounds that it would contribute a "significant step in our drive to be a winner in the global energy market" (Entergy, 1996, p.4). Entergy believed that the ESI was an "attractive market with good growth potential", and expected to see the generation of "a stable and growing stream of earnings and cash flow at an attractive risk adjusted internal rate of return" (Entergy, 1996, p.5). Entergy had also recently purchased an Australian distribution company, CitiPower, which combined with London was expected to improve Entergy's future earning potential. In addition, Entergy expected that the advances achieved towards liberalisation of the UK and Australian energy industries would provide them with experience which would prove "invaluable as we prepare to compete in the US" (Entergy, 1996, p.5).

However, Entergy's ownership of the Company was not to last for very long, and it sold London to the French national electricity utility Electricité de France (EdF) for £1.9 billion in December of 1998 (Taylor, 1998e). Underlying the decision was the destabilising impact these investments had upon its performance as Entergy found itself over extended by its investments away from its home market. In an attempt to turn itself around, Entergy divested both London and CitiPower at around the same time. Since the takeover by EdF, the Company has continued to pursue roughly similar approaches in its main businesses, albeit with slight adjustments to account for changes in the operating environment. One such change was the takeover by EdF of the supply business of SWEB (see Section 7.3) in June 1999, for £235 million. The takeover has resulted in a synergistic merger of the two businesses, with savings being made through the managed combination of IT systems, property portfolios, customer service and call centre activity, and functional department mergers. For marketing purposes, however, the Company continues to operate under both London Electricity and SWEB brand names.

The preceding Section has already discussed the formation of 24seven with Eastern Group (Section 7.1.1), and London's objectives in agreeing this merger. It is clear from this action, the takeover of SWEB Supply, and increased investments in generation that EDF see the UK as an industry offering real potential for growth and proving a compliment to its own activities in main-land Europe (which includes supplying bulk energy to the ESI). The investment in London represents an attempt by EDF to build a very strong energy concern in the UK, which it hopes to float in the near future.

7.2.2 Structure of London Electricity

In this section, the management and organisational structures of London Electricity are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure. At privatisation, the executive directors on the main board of London Electricity were as follows:

Name	Position	Joined London in	From
John Wilson	Chairman and Chief Executive	1986	Midlands Electricity
Roger Urwin	Managing Director	1990	Midlands Electricity
Alan Towers	Finance Director	1988	GPG
Clive Myers	Marketing and Supplies Director	1978	South of Scotland Electricity Board
Andrew Curry	Trading Director	1989	Zodiac Toys Ltd

London generally abided by the pattern evident in most of the preceding cases: the majority of managers were both engineers and possessed extensive experience within the ESI, while the Finance Director was recruited from industry. However, London was one of the few RECs to begin introducing non-industry managers to its team to manage specific functions. In the case of London, Curry was appointed to run the Company's trading activity after a lengthy career in retail. However, Curry was the first of the original board to leave, in June 1992, to be followed by Myers in July 1993. In 1994, Wilson retired and London adopted the managerial arrangement favoured by the majority of the RECs, bringing in a non-Executive Chairman, Sir Bob Reid, and promoting the Managing Director, Urwin, to CEO. Other changes occurred around the same time, with Ian Beament being appointed Network Services Director, and Mike Brown being appointed Customer Services Director, both internal appointments in June 1993, and Mike Kersey being appointed Energy Services Director, joining from AMEC in January 1994. This was the board composition as the takeover by Entergy approached.

Inevitably, the takeover by Entergy brought changes to the composition of the main board. However, these were not as extreme as in the case of companies such as SWEB. While the Chairman of the new company, Ed Lupsburger, was from the parent, the CEO was Mike Beamis, from London Electricity. The short lived ownership by Entergy, and the takeover by EDF brought about further changes to the board, and a further injection of new managers, this time from the new French parent. The composition of the new London Electricity is as follows: Bruno Lescoeur, Chairman and CEO; Ian Beament, MD; Kevin Morton, Public Networks; John Morris, Metering; Martin Wenborn, Retail; Derek Lickorish, Customer Service; Angus Norman, Private Networks; Gerald Wingrave, Finance; Paul Cuttill, Corporate Services; and Bernard Cottrant, IT.

In respect of its organisational structure, at the beginning of the privatisation process London operated a two-tier system, with the Company being organised into five areas reporting back to Head Office. Head Office was responsible for the formulation of policies, the management of centralised operations such as electricity purchasing, the operation of the distribution system, the negotiation of major sales contracts, the retailing and servicing of appliances, contracting, and research and development. The operational areas were responsible for the local operations of the centralised customer services and engineering divisions, including the operation of the distribution system, for meter reading, collection of payments, and the maintenance of emergency services. The relationship between managerial and organisational structure was as follows: "The management of London Electricity is controlled by five Executive Directors, comprising the Chairman, who is also Chief Executive, the Managing Director and three Executive Directors who have responsibility for the finance, marketing and supplies, and trading divisions. There are five further divisions: engineering, customer service, personnel, information technology and secretarial. Apart from the Finance Director and the Company Secretary, who report direct to the Chairman, the head of each division reports to the Managing Director. Over the past two years, changes have been made in organisational structure at Board level and at the head office in readiness for the requirements of the privatised sector. New teams have been established in the areas of electricity purchasing, regulation, taxation and corporate finance" (Kleinwort Benson, 1990, p.291)

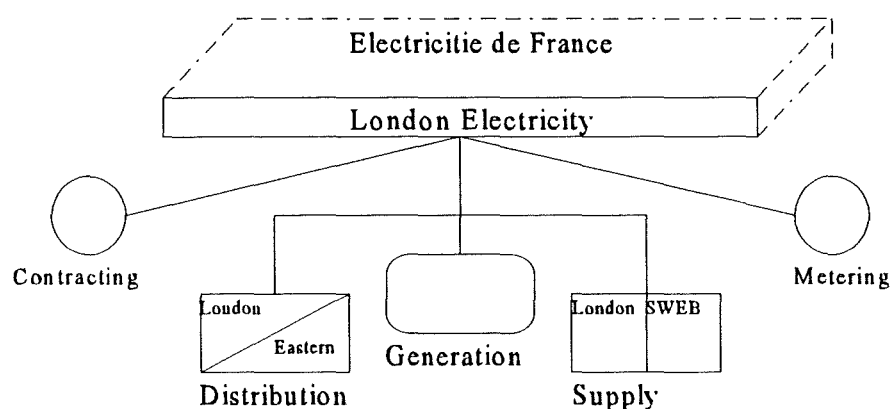
Clearly, London operated a divisional structure, but within this divisional structure a role culture is also evident. London stated at the beginning of the process that it had been through several organisational revolutions, and that the culture greeting the new era was more customer focussed and decentralised than during the nationalised period. During this time, in addition, costs had been reduced by 20% (Kellaway, 1988). However, there was still a belief that London was not among the most entrepreneurial of companies.

The structure developed for privatisation was retained until 1993, when a new structure based upon three divisions was introduced. These three divisions were:

- ▶ Network Service: comprising its distribution services, the remaining electrical contracting activities, and the BAA airport distribution network;
- ▶ Customer Services: its retail activity; and
- ▶ Energy Services: comprised of all of its activities in competitive markets such as bulk electricity trading, pooling and settlement operations, and the London Total Gas joint venture.

This divisional structure was thought to provide the best support for the clearly focussed business activity of London, and has survived largely to the present day with some modifications. Some businesses, such as metering and contracting, are now standalone subsidiaries with their own independent management teams. The remaining three areas of business London is currently engaged in: distribution, supply and generation, remain in separate divisions within the Group, as illustrated by Figure 7.2.

Figure 7.2: The Current Structure of London Electricity



London has therefore not yet witnessed the sort of strategic turnaround experienced by some of the other RECs. It has also, despite undergoing two takeovers, not witnessed as much turmoil as for example EME or Eastern. As will become clear below, it appears to have fluctuated little from its original strategic objectives. Similarly, the structure developed by the Company at the beginning of the process has persisted, with only the occasional alteration as operating environments have changed, and been reflected in strategic as well as structural shifts. Therefore, it is argued, London provides an example

of a company wherein structure and strategy are closely related, and whose evolution is similarly related.

7.2.3 Strategy Decisions at London Electricity

The overall strategic objectives of the managers of London were principally related to the Company's distribution business, which they intended to manage explicitly to "exploit opportunities for cost savings" to benefit from any growth in number of units distributed. Other businesses were expected to contribute to profitability in a small way, and any future participation in generation was not included in the Company's formal expression of its expected prospects (Kleinwort Benson, 1990, p.273). With such a limited objective, and with the divisional structure described above, it is conceivable that London may have been more prescriptive in its strategy process than other RECs already examined. Indeed, during the period senior managers have referred to an approach in which "disciplined management and rigorous financial control" (Urwin, in London Electricity, 1995, p.5) were central to the achievement of cost reduction and profitability targets, and where meeting the Regulator's set of performance targets was given a high priority. Despite announcing initiatives aimed at devolving responsibility in order to give "management and staff better opportunities to develop more flexible, responsive approaches" (Urwin, in London Electricity, 1995, p.5) London would seem to have been a company with a more prescriptive than emergent approach, at least prior to its second takeover.

7.2.3.1 Corporate Strategy

It is clear from the discussion in Section 7.2, that London has not attempted to develop as wide a scope in its businesses as other RECs have done, at least when it was an independent company. The Company announced at the beginning of the period that managing its distribution business was its principal concern, and it is with distribution that this review begins.

(a) *Distribution*: It has already been noted that in the distribution business, companies have little option but to pursue a concentrated growth approach. In the ESI, the principal method at a company's disposal to achieve this objective is cost reduction, allied to performance improvement. London appreciated this 'fact of regulated life' earlier than most, and included a clear statement of their strategy in their issue prospectus. They would "exploit opportunities for cost savings....under the distribution price control formula" (Kleinwort Benson, 1990, p.273) meaning in effect that costs would be cut early, and harshly, following each price review to maximise the returns available. This was a lesson other RECs only learnt after painful experience (see, for example, Eastern in Section 7.1).

As has already been noted in the preceding study of Eastern Group, London has recently sought even greater cost reduction in its distribution business by announcing the 24seven joint venture between itself and Eastern. A press release by London expressed the aims of the joint venture as involving "significant cost savings through the consolidation of operations. This will be achieved through improved procurement, use of single IT systems and processes, reduced property costs and other economies of scale" (London Electricity, 1999b). The cost reductions were to come primarily from reducing staff numbers, with an anticipated cut of 400 at the beginning of the joint venture, with a further 400 to follow over the next 18 months. The majority of the job losses were expected to be from office and administrative functions, rather than front-line engineering staff. The joint venture therefore extends the concentrated growth strategy that the Company has been following since privatisation.

(b) *Supply*: In supply, a similarly concerted concentrated growth strategy has been utilised. As mentioned earlier, the merger of London's electricity and gas supply businesses with those of SWEB has presented the Company with real opportunity to reduce operating costs, in order to maximise the profits from sales. London has remained a leading company in service management and provision and service quality remains a high concern. It has shown less interest in product development than other RECs, and has less aggressively pursued market development, beyond buying SWEB Retail. However, it has sought to participate in large scale consortia as a matter of course, and has been involved in several notable successes. This suggests a desire on the part of London to create critical mass through buying market share, and then managing that critical mass effectively, while at the same time winning very large distribution and supply contracts. This contrasts with the aggressive organic market development approaches of some of the other RECs.

(c) *Other Businesses*: As noted earlier, London undertakes business in other areas, all of which are related to the main business. Its contracting and metering businesses are managed as stand alone subsidiaries which must generate their own profits in competitive markets. These each adopt a concentrated growth approach within limited operating environments. They are not actively seeking to break out of their local niche markets. In generation, London has limited capability and its aim is principally to provide relatively small scale support in the form of backward integration to its main supply businesses, although this may be about to change due to the influence of the new owners. Recently, London extended its portfolio of generation capacity by buying Sutton Bridge Power Station from US utility Enron (London Electricity, 2000).

London has clearly pursued a more consistent corporate strategy approach than other RECs. Throughout this period, concentrated growth opportunities have been emphasised, aiming at defending their hold on existing customers by offering high quality service and competitive pricing rather than attempting to grow their business through diversification. What investment London has allowed has been on large risk averse assets, like power stations, or substantial investments in support of key areas of business, like the purchase of SWEB's supply business. It has not been particularly innovative, except in seeking greater cost reduction through its joint venture with Eastern in distribution. Historically, it has tended towards horizontal, rather than vertical integration, but this latter development may be evident in the future, as with its recent addition to its generation capability.

7.2.3.2 Business Strategies

As with the Company's decision making in relation to corporate strategy, London's business strategies have also been markedly consistent. In distribution, London has pursued a programme of cost management, but more resolutely than some of the other RECs. In supply, the Company has along with the other RECs accepted that low costs are a priority, and has chosen a combined cost focus/differentiation focus, focus utility approach to retaining old customers, and win new customers. As mentioned above, London was in a unique position in respect of competition. With its high proportion of 'low use' domestic customers and low proportion of 'high use' industrial customers, it was not as exposed to the early effects of competition as other RECs. Therefore, it was possibly in a better position than most of the other RECs to prepare itself for the advent of domestic competition. Its solution to its competitive problem was therefore low costs and high customer service. London claimed that a recent OFGEM report showed that it had achieved the greatest number of, and largest proportional, price reductions of any of the RECs (London Electricity, 1999a). Additionally, London has also been one of the most effective suppliers of electricity, according to the Regulator's performance tables.

7.3 Seeboard (Formerly the South Eastern Electricity Board)

Seeboard is the REC for the South East of England. The Company's operating franchise covered an area of 8,200 square kilometres and included all of the county of East Sussex, almost all of Kent, and most of Surrey and West Sussex. Seeboard's area contained a contrasting mixture of domestic demand in the densely populated urban area of Southern London and major towns such as Brighton, as well as agricultural demand from rural areas. However, the area has seen significant and growing demand from the service sector, and is among the most affluent in the country. Seeboard has the highest proportion

of domestic customers of all of the RECs, and can suffer through the vagaries of seasonal demand. There is very little heavy industry, the third lowest proportion among the RECs, but substantial transport hubs: Gatwick Airport, the Channel ports, and Ashford international rail interchange. There were some doubts as to Seeboard's prospects at the beginning of the period, with BZW questioning whether they would be among the stronger RECs (Thomas, 1990g). The Company was not expected to be amongst the RECs likely to engage in extensive diversification, which was seen as a positive feature (Pearson, 1990b), making the company averagely ranked in the sector. Any investments it did seek to make, it claimed, would be derived from its existing skills and commercial base (Kleinwort Benson, 1990, p.564).

7.3.1 Key events: 1990-2000

As indicated above, Seeboard was not one of the RECs that appeared to view privatisation as an opportunity to seek either related or unrelated investment opportunities. Indeed, there were only two major developments at Seeboard in the years immediately following privatisation, although one of these events was truly notable. Seeboard made one of the earliest, and most significant, market development moves in March 1990 when it won from Southern Electric the contract to supply Heathrow Airport (Thomas and Samuelson, 1990). The Company then supplied the two largest airports in the country and was exploring the possibility of helping BAA, the owner of the airports, establish Combined Heat and Power (CHP) stations at each in order to further reduce the cost of supply. However, Heathrow returned to its original supplier a mere one year later, with the accompanying announcement from Seeboard that it would not chase large supply customers at an uneconomic price. The other, less revolutionary, development saw Seeboard beginning to explore the possibility of building a gas fired power station.

From its first year of operation, Seeboard was regarded as a sound investment, but lacking in dynamism. Seeboard sought to make a virtue out of limiting its business focus to those businesses that it had been traditionally engaged in. This included a joint venture with Sainsbury's to attempt to reposition its appliance retail business (Thomas, 1991), and a second such deal with Habitat. It also sought to manage its costs effectively, but without making the sort of dramatic cuts in evidence elsewhere. From 1992, it began to act slightly more adventurously, but only in support of its core business activities. It:

- ▶ purchased Nene Electrical Installations from the Nene Group for £4 million, to enhance the product offering of its contracting business (Anon, 1992a);
- ▶ established a gas marketing company: Southern Gas, in a joint venture with Utilicorp, the fourth REC to do so (Lascelles, 1992b);
- ▶ developed a more extensive partnership with Amoco to market gas to domestic

customers when the domestic market began its phased opening in April 1996 (Corzine, 1995), which absorbed Seeboard's Southern Gas business after the Company bought out its partner Utilicorp. The company was thereafter known as Beacon Gas;

- ▶ brought in outside assistance, from computer company Oracle, to develop a database to more effectively channel its marketing effort;
- ▶ commissioned, in a joint venture with Southern Electric, AES Corp. and General Electric, the 660MW CCGT Medway Power generating plant (Betts, 1992);
- ▶ provided domestic consumers with a £10 rebate in 1992;
- ▶ initiated a job reduction programme ultimately aimed at cutting 500 jobs, which had seen the staff total fall by 180 by the end of financial year 1991-1992 (although the City believed there remained further potential for cost reduction);
- ▶ established a wholesale contract with EdF to hedge against higher electricity pool prices;
- ▶ was the first REC to announce a price freeze for its domestic customers (Anon, 1993a);
- ▶ was one of the top 6 RECs winning contracts out of area in the 1MW and 100kW non-franchise market, and was one of the first three RECs ready for the introduction of full domestic competition in 1998-99; and
- ▶ was part of a consortia bidding to win the channel tunnel rail link contract.

However by the beginning of the 1993-94 financial year, the increasing competitive pressures experienced by all of the RECs led Seeboard towards a major cost reduction and restructuring programme. Consecutively, the Company set about a major cultural change, and refocused itself upon profits, results and shareholder value. The Company established a new corporate goal, of being the most efficient of the RECs, and further distanced itself from the possibility of diversification³. Up to 600 jobs were expected to be lost and the businesses of Seeboard were refocused to improve operational effectiveness (Smith, 1993a). From 1994, the Company sought to cut a further 750 jobs over the following three years to further control costs. It refocused its activities on three separate profit centres: distribution; supply; and The Business Group, containing all of the other unregulated business activities that the Company was engaged in. The development of a more cost focussed approach was further emphasised later in 1993, when its retail staff agreed to newer, and less favourable, pay and conditions as the Company adapted to

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Although concern was voiced ahead of the 1994 price review that without some form of diversification the company would be "bulging with cash" (Lascelles, 1994b).

difficult trading conditions in that sector (Anon, 1993d).

The focus upon quality service was rewarded in 1993 when Seeboard was said to be one of the best RECs in the Regulator's disconnection league (Lascelles, 1993d). In early 1994, the Company was the first REC to cut its prices to business customers (Lascelles, 1994b), cuts which were shortly extended to its domestic customers when it became the first REC to pass on price cuts that had not been required by the Regulator to this group of customers (Smith, 1995e). At the time of the first regulatory review, Seeboard was regarded as one of the most efficient of the RECs, which was effective at marketing itself, and with a good record for customer service.

In November 1995, Seeboard was the subject of a friendly takeover bid by the US utility Central South Western Corp. (CSW) (Wighton, 1995f, of Dallas, Texas, the seventh to receive such a bid. The agreement tends to suggest that, following its aggressive move into the domestic gas industry, the Company was looking to become a more dominant and expansive company within the industry. CSW was attracted to Seeboard because of its low cost, high quality service reputation. CSW's happiness with the manner in which Seeboard was progressing was shown when the board of the Company were retained by their new owners, who were also happy to allow operational control to rest in Sussex. The new Seeboard was set aggressive market development targets, of 10% of the domestic gas market and increasing its 7% of the electricity supply market, at the same time as realising further opportunities in generation. As part of this process, a Seeboard led joint venture: Seeboard Powerlink, successfully tendered for the contract to operate, maintain and upgrade electricity supplies to London Underground Ltd (Batchelor, 1997). The other members of the alliance were BICC and ABB. It also sought to aggressively grow its share of the gas market through its Beacon Gas subsidiary. Additionally, the Company set about increasing its involvement in generation, by agreeing to participate in a joint venture CCGT power plant in Shoreham harbour with ScottishPower called South Coast Power (Marsh, 1997b). The decision to sell its retail outlets to Dixons reflects the influence of the new owners upon the management of the Company, as Seeboard fully focussed upon its core business activities (Wright, 1998).

7.3.2 Structure of Seeboard

In this section, the management and organisational structures of Seeboard are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure. At privatisation, the Executive Directors on the Main Board of Seeboard were as follows:

Name	Position	Joined Seeboard in	From
George Squair	Chairman and Chief Executive	1983	Southern Electric
David Lovesey	Managing Director	1987	SWALEC
Terry Boley	Corporate Strategy Director	1989	Electricity Council
Jim Ellis	Commercial Director	1967	Yorkshire Electricity
Len Jones	Operations Director	1983	Southern Electric
John Quin	Finance Director	1989	EMAP
Maunder Wide	Administration Director and Company Secretary	1979	British Gas

Seeboard's initial Main Board was in some senses very similar to those of other RECs, but in another sense quite different. The majority of managers were again drawn from the industry, and only Quin had experience of a non-energy sector in the preceding 20 years. However, the designation's applied to the roles of the executive director's shows a company which is arguably more aware of the demands of the coming era. For example none of the other RECs had an executive director in place specifically to examine corporate strategy, although this alinement of responsibility would not survive long in the new environment. In 1992 the board was restructured following the retirement of Squair. The Company split the roles of Chairman and Chief Executive, with Sir Keith Stewart becoming Non-Executive Chairman, and Jim Ellis stepping up as Chief Executive. In addition, Boley retired, to be replaced by John Weight who became Managing Director, Business Group. In addition, other executive director's were re-designated Managing

Figure 7.3: Executive Director's Areas of Responsibility, 1993

CHAIRMAN Sir Keith Stuart			
CHIEF EXECUTIVE Jim Ellis			
GROUP FINANCE DIRECTOR John Quin Corporate Finance; Taxation/Treasury; Financial Planning; Statutory and Regulatory Accounts	MANAGING DIRECTOR DISTRIBUTION Len Jones Network Services - Engineering; Policies and Operations; Changes and Regulatory Issues; Marketing of Distribution Services	MANAGING DIRECTOR SUPPLY Stephen Gutteridge Power Purchasing; Tariffs and Contracts; Southern Gas; marketing of Electricity; Generation; Regulatory Matters	MANAGING DIRECTOR BUSINESS GROUP John Wright Retail; Electrical Contracting; SEEBOARD International; Transport and Support Services

Source: Seeboard, 1993, p.5

Director's of the various new divisions: Jones, as MD Distribution, and Gutteridge, as MD Supply. Stephen Gutteridge had been appointed Commercial Director to replace Ellis upon his promotion. An indication of the responsibilities each of these new MD's held is shown at Figure 7.3.

Some changes occurred between the restructuring of the management team and the takeover by CSW: Quin retired and was replaced by Michael Pavia in October 1994, while Jones also retired to be replaced by Weight as MD Distribution with Tony Smith being promoted to replace him as MD Business Group. However, this structure remained, with composition evolving over time. The current board of directors comprises:

Name	Position	Joined Seeboard in	From
Jim Ellis	Chairman	1967	Yorkshire Electricity
John Weight	Group Managing Director and Chief Operating officer	1993	ESI
Michael Pavia	Group Finance Director	1994	Lasmo
John Harper	Director	1998	CSW
E R Brooks	Director	1996	CSW
Thomas Shockley	Director	1996	CSW

The current composition clearly shows a change, in that the owner has significant representation on the Board. This suggests that the board itself is a formal body, with responsibility for setting the Group strategy, but not for day-to-day management, which is undertaken by the Officers of Seeboard: the Distribution Director, the Energy Supply Director, the Customer Services Director, the Company Secretary, and the Group Financial Controller. The role of the board has therefore changed, as the Company has become more divisionalized over the period.

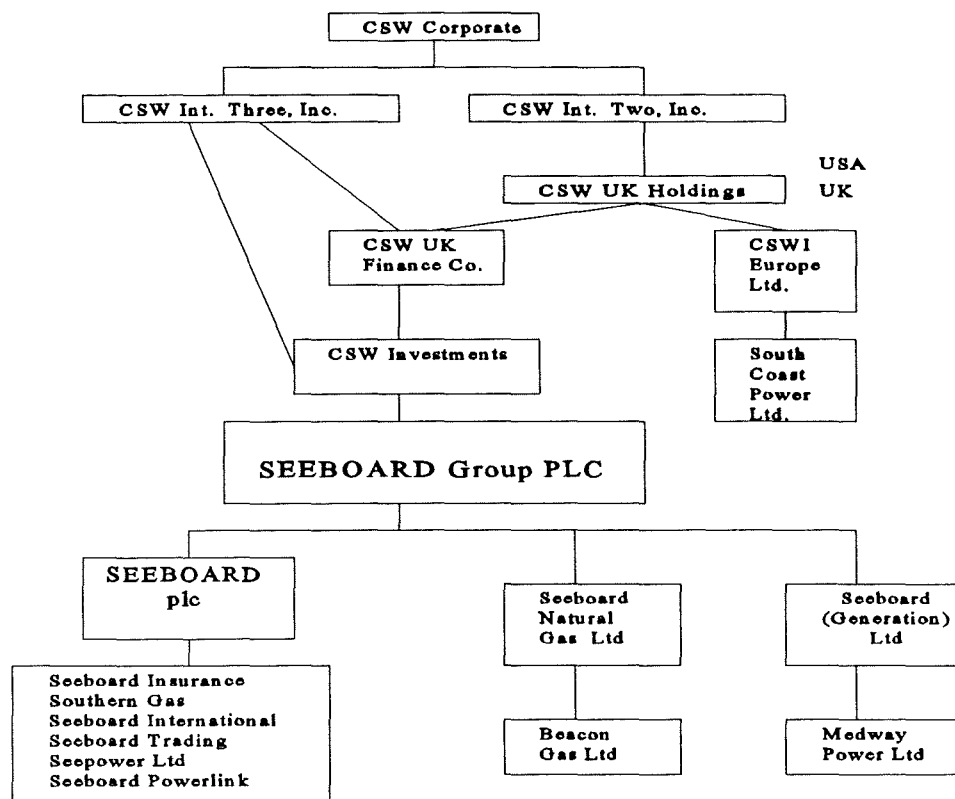
At the beginning of the privatisation process, Seeboard operated a two-tier structure of a Head Office and four divisions, which reported back to the Head Office. These divisions were geographically defined, and were designated the Central, Northern, Kent, and Sussex Coast divisions. The Head Office was responsible for policy formulation and the direct management of centralised operations such as electricity purchasing and marketing, tariff formulation, control of the distribution system, the negotiation of major sales contracts, IT and Telecommunications, appliance retailing, corporate development, personnel, legal and public relations. New functions, such as treasury, taxation, corporate planning and shareholder administration were added in the run up to privatisation. Within the divisions managers held responsibility for electricity sales, network construction, maintenance and

operation, servicing of appliances, electrical contracting, meter reading, collection of accounts and the maintenance of emergency services. At the head office level, the organisation was based around five executive directors who were responsible for the finance, commercial, operations, corporate strategy, and administration directorates. At the divisional level, there was "significant delegation of authority" to the general manager who headed each of the divisions (Kleinwort Benson, 1990, p.553-554).

At the beginning of the period, therefore, Seeboard operated an hybrid structure combining both functional and divisional elements. The Company was initially criticised for this arrangement, as it was thought to be neither one thing nor the other. As the Company had decided to focus upon its core business activities from an early stage, the view of analysts was that the Company's structure should have been constructed to reflect this, and thus see Seeboard evolve to a much more pronounced divisional structure.

This move was taken in early 1993, when the organisation's geographically oriented structure was amended to a more product based structure. Therefore, the former geographical divisions and Head Office directorates were replaced with three product divisions centred on distribution, supply and the other business conducted by the Company, designated as The Business Group, which included retailing, contracting, and generation (Seeboard, 1994). The Company sought also to rationalise the management of Seeboard, and the restructuring brought a reduction of around 400 jobs, as head office functions were allocated to the separate business units, and as such Head Office's role was redefined. The restructuring saw Seeboard's IT activities contracted out to Anderson Consulting (Smith, 1993a). The takeover by CSW has not markedly altered the structure Seeboard, and a close variation on the structure introduced in 1993 persists, although some businesses, such as appliance retailing, have been discontinued. It is possible to argue that there was some initial confusion at Seeboard as to the extent to which the Company was looking to decentralise decision making, or maintain formal central control after privatisation. This confusion was addressed with the 1993 restructuring which allowed business decision making to be devolved to the businesses. This suggests that the strategy of Seeboard at the beginning of the period was only partially defined due to failure to appreciate the limitations of a central strategic function in a divisionalized structure. The structure therefore effectively accompanied a redefinition of the strategy of the Company after 1993. The latest overview of the structure of the Company and its relationship with its owners is presented at Figure 7.4.

Figure 7.4: CSW UK Group Structure



Source: Seaboard, 1999, p.13

7.3.3 Strategy Decisions at Seaboard

The origin of the initial lack of congruence between strategy and structure perhaps lays in the question of strategy process within the Company. Seaboard identified a very clear initial objective for itself, which was to manage its core activities effectively with the aim of achieving benefits for shareholders. At the beginning of the period, much of the responsibility for the achievement of this aim was placed with the managers of the dominant coalition, suggesting a prescriptive approach to strategy formulation. Decentralisation allowed decisions to be taken on operational rather than strategic matters further down the organisation. However, after 1993, the process appears to have become more emergent. Fundamental business objectives were still formulated at the head of the organisation, but responsibility for determining a path to the achievement of these

objectives was increasingly left to managers within the separate businesses.

7.3.3.1 Corporate Strategy

Seeboard was one of the RECs that has remained relatively loyal to its original business activities, including being one of the last to consider leaving appliance retail, a business that many of its contemporaries left considerably earlier. This analysis of strategic decisions, therefore, focusses upon the core businesses principally, and joins all of Seeboard's other business areas under a single heading of the Business Group, as used by the Company.

(a) Distribution: the extent to which RECs could utilise any grand strategy other than concentrated growth has been discussed elsewhere. As with other RECs, Seeboard based its strategy in distribution on such an approach, although cost reduction did not feature as prominently nor as early as it did with some of the other RECs. Seeboard was identified as one of the smaller RECs, and potentially therefore its ability to reduce costs in its core businesses was limited. It is noticeable that when the Company was exposed to its first, and only, period of cost reduction - between 1994 and 1997 - the majority of cuts were expected to come in middle management rather than the network business. The Company has not been identified as seeking further cost reduction by organisational synergy, as has been the case between a neighbouring REC, London and its discussions with Eastern Group.

(b) Electricity and Gas Supply: Seeboard was seen as being extremely keen on marketing itself outside of its service area from the beginning of the period, and this market development activity in both electricity and gas continues. Seeboard scored the first significant success in the newly competitive 1MW market, although it shortly lost its Heathrow supply contract to Southern. In other major deals, Seeboard has won the supply contract for the London Underground, and participated in a number of consortia to further extend its market reach. In gas, through its joint ventures initially with Utilicorp and then Amoco it has aggressively sought new supply customers across all levels of demand and across the whole country. It has not tried to emulate the extensive product development approaches of some of its competitors. Throughout, it has sought to pursue a concentrated growth approach underpinning its strategic objectives in supply.

(c) The Business Group: throughout its remaining unregulated businesses, the key has always been the basic concentrated growth approach, although this approach was supplemented as considered appropriate in some of these areas. For instance, in generation the Company has formed joint ventures with partners in order to spread risk

and benefit from compatible skills sets. In retail, the Company sought to pursue a market development approach by shifting its focus away from its traditional high street location, towards out-of-town superstore locations, reflecting a changing demographic amongst shoppers. Ultimately, the new owners of the Company decided that the retail activity was incompatible with the core activity of the Company, and it was divested.

It would appear that Seeboard has remained very loyal to its original intention of seeking to manage its core businesses as effectively as possible, through a concentrated growth approach. While the various businesses have become more adventurous, as shown in Section 7.3.1, there has not been diversification or innovation on a scale witnessed elsewhere. Seeboard has therefore remained very consistently focussed upon its core businesses, and the core strategies those businesses have pursued.

7.3.3.2 Business Strategy

As for its business strategies, Seeboard has again shown considerable consistency. While management of cost has again been the dominant objective used in distribution, a combined cost focus and differentiation, or utility, approach has been used in the supply business. Seeboard had established for itself in 1995 the aim of being the best utility in the UK. As demonstrated above, Seeboard was the first REC to voluntarily cut its own prices to demonstrate the effect of a cost focus approach resulting from improved efficiency and reduced costs. At the same time, it set itself the target of attaining the highest standards within the industry, and used quality of service as a means of differentiating itself. It has not chosen to pursue other differentiation strategies as witnessed among its competitors: its affinity programme for example is based upon offering discounts at restaurants and hotels rather than the alliances with well known companies favoured by some of the other RECs. It has not launched a green energy tariff.

7.4 Southern Electric, now part of Scottish and Southern Energy

Southern Electricity is the REC for the South of England. The Company's operating franchise covered an area of 16,900 square kilometres and comprises all or part of the counties of Hampshire, Oxfordshire, Berkshire, Wiltshire, Dorset, Somerset, West Sussex and Devon as well as the Isle of Wight, within its boundaries. The composition of customer types is varied, including sizable domestic and small business users, as well as agricultural demand, in an area of the country where incomes have grown at higher than the national average in recent years. The major ports of Portsmouth and Southampton are included in this area, and the extended motorway system continues to bring new jobs to the UK's 'silicon valley', the M4 corridor from Reading to Swindon. The Company

was headquartered at Maidenhead in Berkshire, although it is now headquartered at Perth, in Scotland following its merger with Scottish Hydro-Electric.

Southern is of particular interest as it was identified as being the largest of the RECs, in terms of market capitalisation, at the beginning of the period, and second largest by proportion of electricity distributed, holding 11% of the market. Its rate of sales growth were expected to increase after privatisation. It was also identified as being one of the RECs most prepared for privatisation, having embarked upon a market-oriented reorganisation four years in advance of the announcement of privatisation in 1988 (Samuelson, 1989c), and well in advance of many of the other RECs. To this end, Southern established in early 1986 a list of criteria for success, that would guide the Company's progress. As part of this process they identified a number of obstacles and established six task forces to tackle them. These problems were: communications and involvement; operating as a business enterprise; customer-staff and information technology interface; systems and procedures; customer relations; and corporate image. Their aim, in undertaking this enterprise "was to improve both the productivity and efficiency of the board's personnel which accounts for two thirds of its controllable costs. In the following five years, it achieved a 14.5 per cent real increase in the workload of its non-trading staff, while manpower fell by 4.5 per cent" (Samuelson, 1989d). As a result of this activity, glaring weaknesses were highlighted by a survey of customer attitudes, including concerns for poor and unimaginative levels of service. The action taken to remedy these weaknesses saw the Company enter the new era with a considerable reputation for cost management and customer service.

7.4.1 Key Events: 1990-2000

Southern was identified as one of the RECs most keen to build up critical mass in its supply business, while at the same time acknowledging and defending distribution as its core activity. It was also one of the many RECs keen to explore the possibilities of generation, but that was probably the extent of the Company's early intentions with regard to new business opportunities. As the pathfinder prospectus notes, the Company only committed itself to examining "possible new business opportunities which have strong links to existing activities, or which will build on existing strengths, and where prospects for profitable growth can be identified" (Kleinwort Benson, 1990, p.616). The Company was an early favourite of the City, partially because its aims were rational and limited⁴, the good early work it undertook to align itself with its new operating environment,

4

A target of only 15% of earnings to come from non-core business by the year 2000.

considerable marketing ability, the high esteem with which the Company's management was held, and the fact that it was one of the larger RECs.

Other events during this period encouraged the City to continue viewing the Company in a favourable light. These included Southern being:

- ▶ one of the earliest to venture into self generation and became a partner in the Thames Power generation plant with joint venture partners Eastern and London Electricity, and the Medway Power generation plant, with joint venture partners GE, AES, and Seeboard;
- ▶ one of the RECs making the most conscious effort to win big customers. It won one of the first 1MW competitive supply contracts when it agreed to supply the new Honda car plant in Swindon, which despite being within its own region was subject to considerable attention by the national generators (Samuelson, 1990a), in addition to 31 large out of area customers (Samuelson, 1990d). Although it initially lost the supply contract for Heathrow Airport (Thomas and Samuelson, 1990), the contract was won back in 1991;
- ▶ actively looking at productivity improvements as a result of investing in new technology;
- ▶ a leader in customer service by initiating a quality improvement programme called 'Quest for Quality', based upon and extending earlier initiatives originating further down the organisation aimed at successfully targeting customer needs, to update and improve its own systems and procedures with the aim of continually improving its product offering (Taylor, 1992), and was the second most successful REC in the Regulator's assessment of service quality in 1992 (Sychrava, 1992f);
- ▶ a leader in operating flexible work programmes among its 5000 employees to increase the Organisation's flexibility and responsiveness, and to improve productivity (Taylor, 1993);
- ▶ involved in a programme of rolling job losses in an effort to manage controllable costs, leading to it claiming that it had the lowest costs of any of the RECs when it reported in 1993 (Lascelles, 1993b), strengthened by the intention of cutting 1000 more jobs between 1993 and 1996;
- ▶ involved in merging its retail activities with that of Eastern Group (Maddox, 1991), to be joined the following year by Midlands;
- ▶ engaged in horizontal integration with the purchase of Rightmain, the parent company of MP Burke, a utility contractor for the major English and Scottish gas and water utility companies (Anon, 1992c); and
- ▶ involved in concentric integration by entering into an agreement with Phillips Petroleum Company UK to acquire and market gas in a joint venture, as part of

its strategy to increase its non-regulated businesses and to become a leading energy utility (Anon, 1992d).

All of these activities were undertaken, while simultaneously remaining one of the leading RECs in terms of dividend payments. By the end of 1993, therefore, the Company was viewed as one of the stronger RECs, focussed upon its core businesses, but whose non-regulated activities were also performing creditably well, and almost uniquely well in the area of contracting. As the non-regulated activities it was engaged in were principally traditional REC activities: retail (ultimately divested in 1995) and contracting, or activities such as generation or gas which were becoming recognisably core REC activities, the contentment with the Company was further enhanced.

At the beginning of the takeover period, therefore, Southern was one of the strongest of the RECs, and hence subject to a wide range of speculation as to its intentions with respect to neighbouring utilities, such as SWEB and Southern Water. It was thought to be one of the RECs least likely to face an hostile bid. It was also thought to be amongst the bidders for the generation capacity the main generators were required by the Regulator to divest. It was, however, viewed as one of the most conservative of the RECs, as opinions within the City with respect to the potential of the RECs altered and managed risk taking became more fashionable. This innate conservatism did not prevent the Company from acknowledging that merging with another REC was a potential course it might chose to follow, the first REC to do so. It identified the potential tightening of regulatory control following the extraordinary regulatory review of 1995 as a principal factor leading to the possibility of merger. Rumours suggest that the REC it was thinking of merging with was Midlands.

While Southern did entertain the possibility of a merger with SWEB, the two companies were unable to reach an agreement and SWEB was eventually taken over by Southern Company of the USA (Smith and Wighton, 1995a). The reason behind the decision was given by Southern Electric as being regulatory, although the attack upon the Company's share price that accompanied the speculation may also have had a part to play, as was the concern that any merger would not generate sufficient funds to cover its expenses. Southern was more definite about the value of an agreed takeover by National Power, which launched a bid worth £2.8 billion for Southern in late 1995 (Wighton, 1995c). The bid lapsed when it was referred to the Monopolies and Mergers Commission (MMC) later in the year, but was revived in early 1996 when the MMC appeared poised to allow it. However, in April 1996 the Secretary of State for Trade and Industry blocked the proposed bid, along with a similar bid by PowerGen for Midlands, citing the anti-

competitive nature of the proposals as a justification (DTI, 1996a). Ultimately, Southern was to be the last of the RECs to enter into a merger/takeover.

Southern had entertained the possibility of bidding for Southern Water, the water company whose area was contiguous to its own. The decision not to continue the bidding was based upon an unwillingness to match the price offered by ScottishPower, who placed a higher value upon the water company (Holberton, 1996e). Analysts had viewed the businesses of both Southern Electric and Southern Water as being highly complementary in terms of geography, customers and core operational skills. Southern's aim in entering the bidding was to create a strong multi-utility group with a sound financial base, a strong and experienced management and significant potential for growth, according to a senior Southern Manager interviewed at the time (Holberton, 1996b). Southern Electric was of the view that post-1998 success will only be won by companies that can offer electricity, gas and water to large numbers in the name of one utility. Ultimately, however, it could not compete with its Scottish rival. It announced later that year that it had put its plans for growth by acquisition on hold (Holberton, 1996m), and set about a share restructuring programme to return some of its extensive capital assets, built up for its acquisition programme, to its shareholders. This differed from the share buy-back schemes undertaken by the majority of the other RECs.

Southern's capability to manage cost was clear however, as the bid allowed a reassessment of how successful it had been since privatisation. The Financial Times reported that Southern Electric's workforce in its core distribution and supply businesses had been reduced from 5,955 in 1990-91 to 3,304 at March 31 1996. Additionally, controllable costs were cut by 12.9% in the financial year 1994-95, a reduction of 35.6% on a cumulative basis since 1990-91 (Holberton, 1996c), and by 46.2% by financial year 1996-97 (Holberton, 1997c).

During this period of potentially distracting activity, the Company continued to pursue its ongoing strategy of high quality service at a low cost. Southern increased its focus upon cost management. This it did by seeking to ensure that the most volatile element of its controllable costs, energy purchasing, was risk managed. This it did by two means. Firstly, it signed a fifteen year wholesale agreement with the nuclear generator British Energy (Holberton, 1996l). This mutually beneficial agreement was seen to remove the possibility of fluctuations in the cost of energy allowing the Company to better plan its marketing activity, by introducing certainty into its pricing. Secondly, the Company planned to spend £75 million on five 40MW power stations to increase the proportion of its wholesale needs that it supplies itself. Together, analysts believed, these measures

should ensure Southern Electric's energy costs are among the lowest in the industry (Holberton, 1997c). The partnership with British Energy was extended in late 1997, when Southern announced it was to build a series of conventionally fuelled power stations with British Energy (Marsh, 1997c). Southern also expressed an interest in any further generating capacity divested by the main generators. The Company was an industry innovator when it launched the first affinity deal in the industry, in partnership with the retail chain Argos. Under the agreement Southern would advertise in Argos catalogues, and provide new Southern customers with points that they could use in Argos stores (Holberton, 1997e). Agreements of this kind are now widespread within the industry.

However, the Company was also criticised for seeking to remain independent in an industry where 'financial muscle' was increasingly looking like an absolute necessity. This was remedied in late 1998 when Southern agreed to merge with Scottish Hydro-Electric, to form a new company called Scottish and Southern Energy (SSE). The merger favoured Southern who were seen to become the dominant partner. Although the headquarters of the new company would be in Scotland, the chief executive would be Jim Forbes, the CEO of Southern (Taylor, 1998b). The rationale underlying the decision was provided at the new company's launch. The themes detectable in Southern's latter strategy: developing certainty in wholesale electricity purchasing, as a protection against price volatility, were the main motivations provided. This, the new CEO argued was of particular importance as competition in domestic supply was introduced. The merged company would also command greater capital resources to fund expansion. There was also the possibility for synergistic savings through the elimination of duplicated costs in areas like information technology and through the increased purchasing power of the combined group. Moving the headquarters to Scotland, rather than remaining in Berkshire, is indicative of the potential of the cost reduction measures. Overall, savings in the region of £40-£50 million were estimated.

At present, the new company is seeking to consolidate its position in the UK energy market. A report issued by PriceWaterhouse Coopers in late 1998 identifies SSE as one of the likely five biggest companies in the industry by the year 2005. Unlike others mentioned in this group, SSE were reported not to be looking at international ventures, preferring to concentrate upon the domestic market (Taylor, 1998e). The new group's priorities were identified as being to increase its generation portfolio, and to build its supply customer base to around 6 million across gas and electricity. Growth by acquisition was said to be on the 'medium-term' agenda, as the Company sought to consolidate its position as one of the five largest UK energy companies (Taylor, 1999b). The recent purchase of the SWALEC supply business from British Energy (British

Energy, 2000) shows how this approach is developing. At the end of its first trading year, analysts identified a straightforward strategy within the group: “bear down on the cost structure and search for growth in the pipes and wires business” (Blackwell, 1999).

Following regulatory approval of the merger, the Company offered the following assessment of its ongoing strategic outlook: “Scottish and Southern Energy will continue to focus on its core strengths and exploit these for future strategic growth in the UK. Scottish and Southern Energy has a proven track record in managing network assets and this expertise positions the Group well to capitalise on the opportunities which become available for either ownership or management; Following the recent round of regulatory price reviews, the Group clearly leads the field in the UK for efficiency and customer service standards. Our focus will be on maintaining this edge and exploiting these skills further in the developing UK utility market; Scottish and Southern Energy has the lowest cost to serve the mass market supply business driven by leading edge CS systems developed for the competitive market. This positions the Group well for further development in mass market supply by organic growth, affinity deals and potential acquisitions; In Generation, plans are well advanced for further development of small scale embedded plant and a significant number of sites have been secured. Options for the development of a second power station at Keadby are also under active consideration so that the Group will be well placed when the gas moratorium is lifted. This will maintain its position as the UK generator with the youngest and most efficient portfolio of assets.”

(Source: *Scottish and Southern Press Release, 2000b.*)

7.4.2 Structure of Southern Electric

In this section the management and organisational structures of Southern are presented, and significant changes to either during the period are highlighted. Firstly, the senior management structure. At privatisation, the executive directors on the main board of Southern were as follows:

Name	Position	Joined Southern in	From
Duncan Ross	Chairman and CEO	1984	SWALEC
Henry Casley	Managing Director	1986	Eastern Electricity
John Deane	Finance Director	1986	CEGB
James Hart	Strategic Development Director	1986	London Electricity
Frederick Lockey	Operations Director	1973	another REC
Peter Woodhart	Corporate Services Director	1986	North Thames Gas

Southern's Main Board conforms to the archetypical REC formula, of employing

managers with long term experience of the ESI, or other energy industries. However, Southern had a lower proportion of engineers among its senior managers (only Ross, and operations director Lockey) than other RECs, suggesting that the restructuring of the management and operations of the Company prior to privatisation led to a careful consideration of the sort of skills necessary for the new era. It is notable that four of the senior managers were appointed in 1986, and that while they possessed ESI backgrounds, most had held non-engineering positions.

In common with many other RECs, Southern split its senior management posts in 1993, with Ross retiring, to be replaced by Geoffrey Wilson as Non-Executive Director, and Casely stepping up to become CEO. The remainder of the board remained the same, apart from the introduction of Jim Forbes, as Operations Director in 1991 on the retirement of Lockey. Forbes joined from Northern Electric. In 1995, the board saw the redesignation of two of its members, with Forbes becoming Managing Director Electricity, and Hart becoming Managing Director Business Development. Forbes was henceforth responsible for the operation of the Company's traditional business, and was further re-designated Chief Operating Officer in 1996, while Hart was responsible for new business developments. In effect, the same management team guided Southern until 1996, when a number of changes occurred.

Wilson was replaced by Ken Coates, another former non-executive director. In addition, Casely retired, to be replaced by Forbes, although Casely stayed with the Company as the non-executive deputy chairman. The board continued with no effective replacement for Forbes, into 1997. Hart remained, although redesignated as Managing Director Energy Trading, and a new finance director, Ian Marchant was appointed from within in June 1996. Following the unfortunate death of Coates, Bruce Farmer became non-executive chairman of the Company in April 1998. This was the team that lead Southern into its merger with Scottish Hydro. The merger of the two companies inevitably caused significant changes to board structure, and the current membership of the board acknowledges the contribution of both companies to the new organisation. The board of Scottish and Southern Energy (1999) is therefore:

Name	Position	Joined Scottish Hydro (SH) /Southern Electric (SE) in	From
Lord Wilson of Tillyorn	Chairman	1993 (SH)	Governor of Hong Kong
Bruce Farmer	Deputy Chairman	1998(SE)	Non-Executive Director
Jim Forbes	CEO	1991 (SE)	Northern Electric
David Gray	Business Development Director	1998 (SH)	Caledonian Paper
Jim Hart	Commercial Director	1986 (SE)	London Electricity
Ian McMillan	Power Systems Director	1961 (SH)	CEGB
Ian Marchant	Finance Director	1992 (SE)	Coopers and Lybrand
James Martin	Generation Director	(SH)	CEGB
David Sigsworth	Energy Trading Director	1962 (SH)	CEGB

In relation to organisational structure, Southern operated using a two-tier structure of a Head Office to which six divisions reported. This structure was introduced in 1987, and was accompanied by significant change. Two layers of management below Head Office were scrapped, and the former district network replaced by operating divisions. At the same time, the Head Office staff count was reduced by 320, more resources were established for marketing, and the Company increased its investment in IT. The functions performed by Head Office included formulation of policy, co-ordination of divisional operations and the direct management of centralised operations such as electricity purchasing, the operation of the distribution system, and negotiation of major sales contracts. Additionally, new corporate responsibilities such as business planning, contract selling, regulatory relationships, taxation and finance were located at the centre. The divisions were geographically oriented, and were largely responsible for customer-related activities, such as electricity sales, construction and maintenance of the network, the retailing and servicing of appliances, contracting, meter reading, account collection, and the maintenance of emergency services. The dominant coalition of the Company comprised the Chairman, Managing Director and four Executive Directors responsible for finance, strategic development, operations and corporate services, with a considerable degree of autonomy passed to the six Divisional Managers. This structure, a geographically based divisional structure with a strong corporate centre, was retained until 1994.

Responding to the dominant trend within the industry, and to the increasingly different demands upon each of its business activities, Southern restructured its divisions along product lines. These new divisions included: a supply division, managing both Southern's gas and electricity supply businesses; a business development division, tasked with finding new business opportunity for the Company in the wake of the 1994 regulatory review; and a distribution division to manage the Company's core business. The traditional businesses of supply and distribution were managed by the MD Electricity, while other continuing and new business were managed by the new MD Business Development. This structure prevailed, with minor adjustments, until the merger with Scottish Hydro.

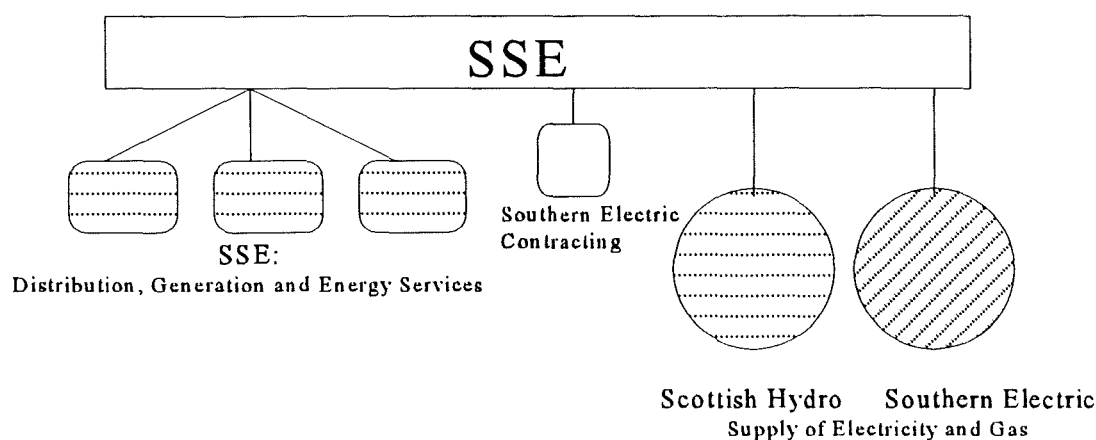


Figure 7.5: Structure of Scottish and Southern Energy

The new organisation has sought to exploit the synergies available to it presented by the merger. To this end, the Company has relocated to Scotland, and has sought to manage its business jointly where possible, although it has retained its recognisable brand names in their former locations. The structure of Scottish and Southern Energy is illustrated at Figure 7.5. Hence, activities such as generation, distribution and energy services are managed as separate divisions, and contracting within a separate company, while supply of gas and electricity are managed in separate companies under their existing brand names.

7.4.3 Strategy Decisions at Southern Electric

Southern has to be viewed as belonging to the group of RECs, along with Manweb (Section 5.1) and London (Section 8.2) that determined at an early stage to pursue corporate level strategies which focussed very closely upon their core businesses. Southern's decision, and its consequences, was explored in Section 7.4.1. As such, a strong concentrated growth approach runs through the Company's corporate strategy making, and underpins its approach to competition. In distribution, as has already been addressed on numerous occasions within this review, a concentrated growth approach is the only conceivable direction in which a distribution business can be driven. Southern in particular appear to have learnt the lesson's necessary to make a success of such an approach, and their business has prospered. Interestingly, the Company has in the past sought to merge with other RECs (Midlands and SWEB were potential partners), although this action was probably supply lead, rather than aimed at improving distribution efficiency and effectiveness, although this may have followed. The merger with Scottish Hydro has allowed the merger of their distribution businesses, although as the two are not contiguous the savings resulting from a joint concentrated growth approach will have been evident in areas such as administration, purchasing, and technology transfer rather than the more obvious operational improvement.

In supply, as was noted in Section 7.4.1, Southern was one of the more aggressive RECs in relation to market development as that market opened. However, it is perhaps correct to say that the 'lead' the Company developed in terms of market development has not been sustained, as other companies have sought to develop critical mass of their own. Southern was viewed as having 'taken its foot off of the peddle', and to be the least prepared of the RECs for full domestic competition. This was despite leading the industry in product development with the signing of one of the first affinity agreements, between itself and the retailer Argos. The merger with Scottish Hydro may well have reversed this 'decline'. Southern always sought, through a business strategy emphasising low prices and high quality service, to differentiate itself from its rivals, and this utility approach continues through the new group. However, it is possible to argue that despite its size, the new Company is not developing the same range of product development concepts as some of its competitors.

Throughout its other business activities, the Company has sought to develop and sustain its underlying concentrated growth approach. Southern is one of very few RECs to have made a success of its contracting business, growing through judicious horizontal integration and tight management of costs. Its generation business, before the merger and latterly in conjunction with its new partner, has sought to grow through organic means,

and it now considers itself in a position to bid for capacity that any of the other generators release. The Company undertakes its generation activity principally in support of its supply business, but also increasingly to generate profits on its own accord. Overall, therefore, Southern has been one of the least adventurous, but most successful and stable of the RECs. Its size was an advantage in its strategic activity, and it has sought a partner which possesses a similar view, focussed upon national and regional, rather than international expansion. Its approach remains rooted in a concentrated growth approach, based upon high quality service, and low cost.

7.5 Analysis of Cases

This section continues the work started in Section's 5.5 and 6.5 in examining the strategic content of four of the twelve RECs, and beginning the process of understanding the factors driving those strategies, as well as commenting upon the strategic combinations identified during this process. The structure and reporting of this analysis will follow the same pattern as that developed in Chapter Five.

7.5.1 Observations: Objective One

The methodological procedure followed in this chapter was the same as followed in Chapter Five, and readers are referred to Section 5.5.1 for an explanation of the process. Tables 7.1 to 7.4 present summaries of the key corporate and business strategies employed by the sub-sample during this period. The relative importance of each strategy in each company is shown. Once again, as with the analysis of companies in Chapter Five, there are notable similarities among the companies, as well as some dissimilarities. Firstly, similarities:

- ▶ all of the companies of the sub-sample began the period with a very clear core business focus, emphasising the importance of their distribution business and of the control of costs. Some of the companies, and in particular Seeboard, were also keen on market development activities but only as long as core concentrated growth principles were conformed to;
- ▶ most of the companies were early movers in relation to generation and gas through joint ventures with a variety of partners, although it is appropriate to say that London was more cautious than the other RECs in this group (who were themselves among the most cautious of the whole population of companies), and among the last to enter the new gas and generation businesses;
- ▶ most of the companies have sought to make their existing non-regulated businesses: appliance retail and contracting, work. However, all have now divested their retailing operations, some (London in 1993) considerably in advance

of others (Seeboard in 1998). The same is not true of contracting, which still constitutes a significant business for both Seeboard and Southern.

The question of dissimilarity arises from the timing of each company's decision to move away from their original strategic approach. The companies within this sub-sample are all recognisably the same companies that entered the new era, which is not the case in any of the other sub-samples, and so present an interesting commentary upon the development of the industry. While each, with the exception of Southern, has been taken over at least once they have not been 'diminished' by the progress of change in the way that companies such as SWALEC, Manweb, Norweb or SWEB have been. The progress of change has made each company markedly different from its peers:

- ▶ Eastern Group, now part of TXU Europe, started out as a cautious and relatively conservative company but is now arguably the market leader in many areas and in particular the new business of energy trading and risk management. The Company's turnaround in 1993-94 created a much more aggressive and entrepreneurial organisation which under its various owners (Hanson, preceding TXU) has sought to establish itself as an international player;
- ▶ London Electricity, now part of the EDF Group, has also moved away from its cautious origins with the aim of becoming at least a significant player on the regional stage. The takeover by EDF, following the short ownership by US company Entergy, has reinvigorated the Company and made it much more ambitious. This was signified principally by the purchase of SWEB Supply;
- ▶ Southern Electric, now the dominant partner in Scottish and Southern Energy, was the last independent REC and arguably the least inclined to alter its initial strategic outlook before the changing circumstance within the industry brought about the merger. Even then the merger has been relatively conservative, and the new Company is only targeting growth in its regional markets rather than venturing overseas. It is, however, seeking to grow its generation assets, and recently took over the SWALEC supply business; and
- ▶ Seeboard, now owned by US utility CSW, has changed the least in this period. It still seeks to be the best REC, but is more narrowly focussed than its peers: it is still closely focussed upon being effective in distribution, and in growth through focussed differentiation in supply. Of this sub-sample, it has perhaps the least certain future if the US withdrawal from the ESI continues (Ghobadian and Viney, 2000). Uncertainty also exists as its US owner has recently merged with the US owners of Yorkshire Electric.

Previous analysis of business level strategy in Chapter's Five and Six has not been particularly illuminating, as a large proportion of the companies reviewed in those chapter's have exited from the main competitive business, supply. However, this is not the case with this sub-sample, and consequently the analysis is more revealing. It is clear that in all cases the companies of this sample have adopted one of two approaches:

- ▶ a segmented utility approach; or
- ▶ a segmented utility focus approach.

This observation reflects the current reality in the UK supply industry, which as is noted previously is still an immature market, and hence arguably subject to a limited range of viable business strategies. The keys to the limited choice of approach available to the companies are:

- ▶ customer expectation; and
- ▶ customer choice.

The customers, both industrial and domestic, expect to be offered low prices and added value service. Inevitably, the added value concern is greater for commercial users than for domestic customers, but is there nevertheless for both sets. Therefore, a utility approach utilising both price and non-price competitive weapons is the only available approach. This approach will be segmented to reflect the differing markets: domestic and commercial, as well as the different target markets that each company will seek to serve. This relates to the competitive reality of the market, where a REC may choose to try to sell in only a limited number of areas, as defined by the old REC distribution area boundaries, or in some of the cases with large companies like Eastern may seek to reach the whole country. The segmented utility focus approach is available if one specific target area or sector of industry is a particular priority for a REC, which needs to compete especially hard to obtain the required market share. It may be that as the industry matures, and the expected shake-out occurs (James *et al*, 2001) a different range of business strategies may become viable, although the author doubts that this range will ever become particularly wide.

Table 7.1: Content Analysis of Eastern Group

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development		✓✓✓ (gas and Norweb)	✓✓✓	
Product Development		✓ (various)		
Innovation	✓	✓✓✓ (gas, affinity, energy trading)	✓ (wind power, energy trading)	
Horizontal Integration	✓	✓✓✓ (Norweb Energi)	✓ (organic and acquisitions)	
Vertical Integration		✓✓✓ (gas fields, generation, power purchasing)	✓✓✓ (gas fields)	
Concentric diversification		✓✓✓ (gas, generation)	✓ (overseas)	
Conglomerate Diversification				
Turnaround	1992-1993			

Table 7.2 Content Analysis of London Electricity

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓	✓✓✓
Market Development		✓✓✓ (gas, and SWEB)		
Product Development		✓		
Innovation	✓	✓ (call centres)		
Horizontal Integration	✓✓ (BAA, Eastern)	✓ (SWEB)	✓	
Vertical Integration				
Concentric diversification		✓ (gas, generation)		✓ (metering)
Conglomerate Diversification				
Turnaround				

Table 7.1 Continued

Divestment				✓ (retail, contracting)
Liquidisation				
Joint Venture	✓✓✓ (London)	✓ (gas)	✓✓✓ (various)	✓ (retail)
Strategic Alliances				
Consortia				
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	Segmented Utility and Segmented Utility Focus	Cost Focus	Energy Trading: Segmented Utility Focus

Key

- ✓ Evidence (where company has engaged in activity of this kind)
 ✓✓✓ Priority (where company has been heavily engaged in activity of this kind)
 # (Where company has considered activity of this kind, but not acted upon this interest)

Table 7.2: Continued

Divestment				✓ (retail)
Liquidisation				
Joint Venture	✓ (Eastern)	✓ (gas)	✓	✓ (retail)
Strategic Alliances	# Thames Water, # Midlands			
Consortia	✓✓ various			
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	Segmented Utility and Segmented Utility Focus	Cost Focus	Cost Focus

Table 7.3: Content Analysis of Seaboard

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development		✓✓✓ (gas, 1MW, 100kW)		
Product Development				
Innovation				
Horizontal Integration			✓	✓
Vertical Integration		✓ (power purchasing, generation)		
Concentric diversification		✓ (gas)		
Conglomerate Diversification				
Turnaround				
Divestment				✓ (retail)

Table 7.4 Content Analysis of Southern Electric

Corporate Strategies	Distribution	Supply	Generation	Other Businesses
Concentrated Growth	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Market Development		✓✓✓	✓	
Product Development		✓		
Innovation		✓ (affinity)		
Horizontal Integration	✓ (Scottish Hydro)	✓ (Swalec)	✓ # National Power	✓ (contracting)
Vertical Integration		✓✓✓ (purchasing agreement, generation)		
Concentric diversification		✓ (gas, generation)		
Conglomerate Diversification				
Turnaround				
Divestment				✓ (retail)

Table 7.3 Continued

Liquidisation				
Joint Venture		✓✓✓ (gas, PowerLink)	✓	✓ (Sainsburys, Habitat)
Strategic Alliances				
Consortia	✓ (various)			
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	Segmented Utility and Segmented Utility Focus	Cost Focus	Cost Focus

Key

- ✓ Evidence (where company has engaged in activity of this kind)
 ✓✓✓ Priority (where company has been heavily engaged in activity of this kind)
 # (Where company has considered activity of this kind, but not acted upon this interest)

Table 7.4: Continued

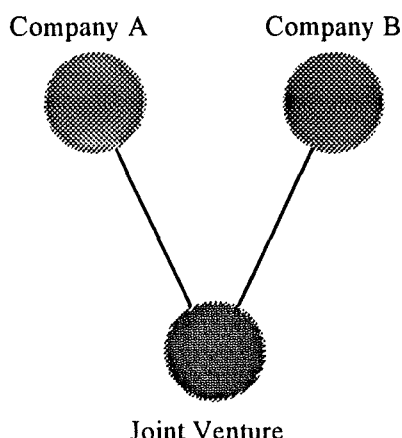
Liquidisation				
Joint Venture		✓ (gas)	✓	✓ (retail)
Strategic Alliances	#Midlands, #SWEB, #Southern Water, ✓ Scottish Hydro, ✓ British Energy			
Consortia				
Business Strategies	Distribution	Supply	Generation	Other Businesses
	N/A	Segmented Utility and Segmented Utility Focus	Cost Focus	Cost Focus

7.5.1.1 Combinations of Grand Strategy

As with Section's 5.5.1.1, 6.5.1.1, and 6.5.5.1, this section seeks to identify viable strategy combinations, based upon the Pearce and Robinson typology of grand strategies (1994), which have been witnessed within the industry in the distribution and supply sectors. This sub-sample firstly presents an interesting, and innovative, combination in distribution which presents a small labelling problem, which has been reflected in Tables 7.1 and 7.2 above. The merger of Eastern and London's distribution businesses in April 2000 formed 24seven (TXU, 2000), a joint venture company owned by the two RECs. In the tables above, this has been portrayed as both horizontal integration, and a joint venture. For the purposes of this discussion, it is diagrammatically shown as a joint venture. Of the other two companies in the sub-sample, the combinations witnessed have been observed previously: Seeboard operates the standard Variant 1 concentrated growth approach, while Southern, in its new partnership with Scottish Hydro, operates the Variant 2B identified in the preceding chapter in relation to SWEB/WPD.

In terms of supply activities, the four companies all present multiple combination approaches, some of which have been witnessed before. Seeboard operates the standard Variant 5A approach associated with Norweb, Northern and Yorkshire. However, Eastern, London and Southern all present a new Variant, as discussed below.

Variant 3C: External Market Development

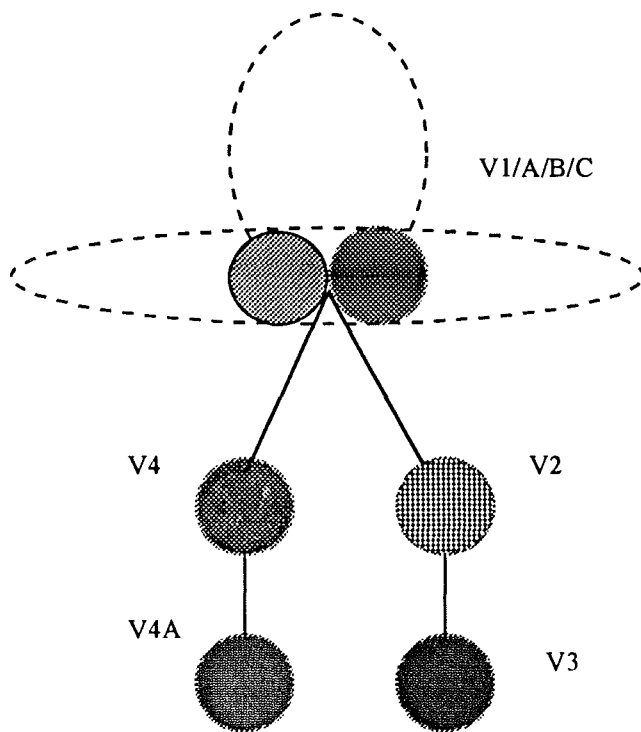


(i) Variant 3C differs from Variant 3 only in that it does not identify any internal market development on the part of the partner companies (the second company is added merely for illustration). In all probability, both Eastern and London have low level involvement in regional regeneration programmes, or have contributed to consortia seeking to attract business to the region. However, as the areas they serve are among the most affluent in the country, this activity does not receive much publicity, and has therefore been excluded from the diagram.

As discussed earlier, this approach would be combined with a segmented utility, or segmented utility focus business strategy. The complexity of this approach also reflects the concern of each of these companies to be involved in all aspects of the new

UK energy industry, and to seek critical mass in all of their operations as a means of ensuring commercial survival. It is also interesting to note that London and Eastern are competitors in the supply industry, but working together in distribution. This perhaps indicates the distance that these two industries have drifted from each other since privatisation.

Variant 5B: Multiple Combination



(ii) The fundamental difference between Variant 5B, and Variant 5A is the presence of horizontal integration around the core concentrated growth activities. Eastern, having taken over Norweb, London, having taken over SWEB, and Southern, having merged its supply business with that of Scottish Hydro, now all have horizontally integrated their core electricity and gas supply businesses. There are differences in degree among this group. For example, London's generation and down stream gas resources are limited in comparison to Eastern, but the same combination of strategies is evident in each.

7.5.2 Observations: Objective Two

Table 7.5 presents an estimation of the importance of key strategy drivers for this sub-sample; with the author estimating the impact of the respective drivers based upon the outcome of the content analysis and indicating a higher suspected impact by a higher number of ✓'s. Once again, the concern that the analysis be viewed as tentative is voiced, as the author can not be certain of being able to gauge the precise influence of the factors of leadership and resources from a review based upon secondary source data. This sub-sample provides two of the three in-depth cases presented in this thesis, and hence the issues of influence identified in this section will be explored in much greater depth for the

purposes of verification or refutation.

Table 7.5: Impact of Possible Strategy Drivers

	External Drivers	Internal Drivers	Leadership	Regulatory
Eastern	✓✓✓	✓✓✓	✓✓✓	✓
London	✓✓✓	✓✓✓	✓✓✓	✓✓
Seeboard	✓✓	✓✓	✓✓	✓✓✓
Southern	✓✓	✓✓✓	✓✓✓	✓✓

Allowing for the tentative nature of the analysis, the following observations are drawn:

- ▶ the most consistently important driver for Eastern over the period has been leadership. This firstly limited, and then latterly expanded, the scope of the business and continues to play a key role. When the Company began to assume a leadership role, the importance of market opportunity, and the resource base also assumed key importance. Eastern's approach to strategic alliance partners/owners has been strongly influenced by the resource needs of its strategy. Regulation has been, comparatively, less of an influence;
- ▶ London has witnessed a more varied range of influences, with the regulatory influence being greatest possibly until the takeover by EDF. Since then the company has, under new leadership, sought the same sort of expansionist approach as Eastern and is therefore subject to the same sort, and intensity, of influences;
- ▶ Seeboard, of this sub-group, has the most familiar pattern of influences held commonly with a number of other RECs. Regulatory and leadership influences have been key throughout, while the influence of the market has been tempered by a view as to the strength and capability of their resources to undertake a more expansive strategic approach; and
- ▶ Southern, despite acting in a very similar fashion to Seeboard for most of the period, has been less influenced by the Regulator than its neighbour, arguably due to its size and the power that confers. Possibly, therefore, leadership was the key driver in the early period, evident in limiting the scope of the company's activities. Under new leadership, the Company has altered its approach, and like London now crucially balances external and internal influences in determining its strategy.

The sub-sample therefore presents a very interesting picture, which illustrates the particular influence of a fifth factor: ownership, and its impact upon leadership and internal factors like resources. Clearly, the right ownership provides greater resources and more

demanding leadership and this has demonstrably lead to an impact upon the direction of strategy. This issue will be addressed further in Chapter Eight, and the field work chapters.

7.5.2.1 *The Question of Leadership*

As the analysis has shown, at the time of the privatisation most of the RECs in this sub-sample conformed to the industry norm, with main boards largely comprised of managers with considerable experience of the ESI. The exceptions were few: both Seeboard and Southern had managers from the gas industry, while London employed a finance director previously employed by one of the major accounting companies. However, as has been shown, appointments of this kind were not unusual. In fact the only 'unusual' appointment was made by London, with the employment of a retailing expert to run their appliance retail operation. As stated previously, therefore, there would be an expectation of innate conservatism and an initially cautious approach. This was, in effect, an accurate expectation. All of the group's initially held core business focusses, and were not amongst the most innovative RECs. Exceptions may have been in Eastern's and Southern's approach to generation, and the market development activity of Seeboard. However, they did not seek to emulate the diversification undertaken at companies such as EME (Section 6.1) and Norweb (Section 5.2).

However this situation changed, and consequently the question of the impact of leadership upon performance is well served by this sub-sample, although the nature of that impact is quite different. Inevitably, it is easier to associate major change with a particular leader, and the turnaround performed by Eastern after 1993 is strongly linked to its new CEO, John Devaney. Other companies, pursuing less dramatic change can also be associated with personalities, for example Jim Ellis at Seeboard, and Jim Forbes at the new Scottish and Southern Energy (SSE). Each of these managers have clearly shaped the direction that their companies have moved in since they assumed control. The sub-sample provides a interesting mix between companies that have sought to introduce much external managerial ability (Eastern, and even more so the new TXU Europe) and those that have retained considerable industry experience (London and SSE). This analysis suggests that there is a considerable impact upon decision making based upon the attitude of individual senior managers.

7.5.3 Other Observations

The first such observation relates to the structure of organisations. As Table 7.6 shows, there was a degree of innovation undertaken by companies of this sub-sample in respect of their operational structures prior to the privatisation. Of these companies, only London

operated a traditional functional structure, based upon a strong head office supported by a network of regional offices. Eastern, Seaboard and Southern all sought to develop at an early stage degrees of autonomy among their operational units, while still driving their businesses from head office, and retaining their regional structure.

Subsequently, all of the companies of this sub-sample restructured along product lines and sought to develop each separate activity as a separate business. There is considerable homogeneity among the current structures operated by this group of RECs, although they look considerably different. TXU Europe perhaps offers the most interesting new structure, driving all of its activities, with the exception of distribution, from its energy trading business. Both London and Southern have incorporated elements of other companies into their structure: London after its takeover of SWEB Retail, and Southern following its merger with Scottish Hydro which has seen some of its activities joining with its Scottish counterparts, and some standing alone. Overall, it would seem that strategy has driven the structure of each of the companies, and that their structures have changed to reflect the emergent demands of the industry.

Table 7.6: Structural Matrix

	Eastern Electricity	London Electricity	Seaboard	Southern Electric
Initial Structure	A Complex Product Focussed Divisional Structure, with Leadership from Head Office and a Regional Network	Functionally Structured Organization with Geographically Oriented-Divisions	A Complex Product Focussed Divisional Structure, with Leadership from Head Office and a Regional Network	A Product Focussed Divisional Structure, with Leadership from Head Office and a Regional Network
Current Structure	Separate Businesses within a Product Focussed Divisional Structure	Separate Businesses within a Product Focussed Divisional Structure	A Product Focussed Divisional Structure, with Leadership from USA	Separate Businesses within a Product Focussed Divisional Structure
Major Changes (dates/changes)	Takeover by Hanson (1995), and Texas Utilities (1998)	Takeover by Entergy (1996) and EDF (1998)	Takeover by CSW (1995)	Merged with Scottish Hydro (1998)

As with the other sub-samples, there has been a variety of approaches relative to the emergent or prescriptive nature of strategy, and the autonomy for decision making provided to managers. Eastern was initially a relatively prescriptive, top-down organisation until its turnaround when it became much more entrepreneurial as Chapter Nine will further demonstrate. London similarly followed this pattern, although it is less entrepreneurial under EdF than Eastern under TXU. Seaboard and Southern have both

tended to be more prescriptive in their outlooks, although there has been evident of the establishment of SBU's and internal market places in each.

7.5.4 Concluding Remarks

Overall, therefore, there is little remaining similarity between the companies of this sub-sample beyond the fact that they are all presently viable and growing organisations. In any future 'shake-out' of the industry, it is possible to see three of these companies (TXU Europe, SSE and London/EdF) among the remaining powers within the industry. These companies have therefore all developed differing solutions to their strategic challenges over the period, some more innovative than others, from similar starting points. This is evidence of differing strategic perspectives, although within this group the influence of individual personality and changed corporate ownership have been marked. Eastern, led by Devaney and backed by Hanson, saw an opportunity to lead the market and took that opportunity. Its success has now been built upon through its position within the wider TXU organisation, with its own global aspirations. London was only an average REC until EdF bought it from Entergy, and transformed its outlook to one of seeking market development opportunities upon a national level. Southern was a large but unadventurous REC which was focussed upon organic growth until it reassessed the direction in which the industry was moving and initiated the merger with Scottish Hydro, leading to an approach very similar to that of London. Seeboard was perhaps the REC best suited to a 'narrower' ESI: it had successfully established itself as the 'best' REC in the view of the Regulator, the City, and its customers. However, it has persisted with this approach and while it continues to perform well its relatively small size may count against it in the future.

Therefore, within this sub-sample, once again there is evidence of a number of different approaches, especially in relation to tactics, developing from fairly similar beginnings. However, and again as noted in the preceding chapters, there is some evidence of identifiable trends in behaviour developing among this sub-sample. The content of these trends is summarised in Chapter Eight. It is perhaps possible to argue that the geographic location, prevailing economic conditions, and relative wealth of the customers of each of these companies has played a significant part in their ability to realise their objectives within the industry.

Chapter Eight Mapping the Industry: Concluding the Preliminary Stage Research

8.0 Introduction

This chapter is the final of the four chapters which comprise the preliminary stage of this thesis. The chapter has two principal objectives. The first of these seeks to summarise and draw conclusions from the preliminary stage of this research. This objective has three key stages, which are to:

- ▶ summarise what has been observed;
- ▶ determine the degree of confidence it is possible to have in the conclusions drawn; and
- ▶ outline the necessary future work needed to improve this degree of confidence.

This effort to improve confidence in the conclusions is the beginning of the process of verification that will follow on from this thesis's exploratory research. The second objective, in support of the above, aims to develop a set of working propositions from the two core propositions outlined in Section 1.3, for testing in the field research.

The chapter will be structured to reflect the analysis undertaken in the case studies presented in Chapter's Five to Seven. Therefore, Section 8.1 reports the analysis conducted in pursuit of Objective One, while Section 8.2 undertakes a similar appraisal of Objective Two. Section 8.3 attempts to classify the behaviour identified in Section's 8.1 and 8.2 to enable the pursuit of Key Objective Three to commence. This chapter is concluded in Section 8.4, which serves to outline the key areas of consideration to be addressed in Chapters Nine to Eleven.

8.1 Summary of Objective One

Objective One of this research was previously outlined in Section 1.3. In summary, Objective One involved the identification of viable corporate and business level strategies within a regulated environment. This involved firstly identifying the content of the strategy pursued by the companies of the sample, and then to determine whether these strategies correspond to existing portfolio's of strategic options, or systems of classification, identified in Section 2.5. Secondly, Objective One involved establishing whether any combinations of strategy were visible, and if they were visible, were they viable. To achieve this objective the preliminary stage of the research involved an

extensive analysis of a range of textual data, derived from a variety of sources, and subject to a process of triangulation. The nature of this process was described in Section 3.4.3.2.1. The outcome of this process was a series of twelve case studies, presented in Chapter's Five to Seven. Each Chapter concluded with a summary of the findings, of which there were four, one for each of the sub-samples examined. The findings of this process are collected and further analysed here, in order to continue to identify dominant patterns.

This results in a classification of the sample, which is presented in Section 8.3. During this chapter, the question of viability is raised. At this point, it is necessary to outline the author's perspective on this issue. Early in the thesis, in Section 1.4, the author's intention not to comment upon 'the success' of various strategies was described, and the author further argued, in Section 1.6.3, that work of this nature was already being undertaken by other authors. However, part of Objective One involved the question of the 'viability' of strategy, and retaining this aim may appear contradictory. The author's view is that patterns of strategy which both persist within the industry, and which are producing positive outcomes - that is profitability for the companies - must be seen as viable, at least in the short to medium term. Such a perception may be classed as simplistic, and indeed the author is at pains to argue that patterns evident in an immature industry will vary over time as the industry matures, but that at this stage in the research such a perception is valid. Having made this necessary clarification, it is possible to move on to the main objectives of this chapter. This process of further examination of the preliminary stage of the research is divided into three sections: analysis of content; analysis of combinations; and development of propositions.

8.1.1 Analysis of the Content of Strategy

The analysis presented in Chapter's Five to Seven enabled the development of an understanding of the content of the corporate and business strategies of the companies under investigation. This section aims to draw together this analysis to enable the identification of any general patterns across the sample as a whole. This exercise results in two tables, 8.1 and 8.2, which show the strategies pursued by the companies in two periods: from 1989-1995; and 1995-2000. The decision to choose 1995 as the break between the two periods has been influenced by the expiration of the Government's golden shares in the RECs in that year. The expiration resulted in wholesale changes in the ownership of the RECs, as related in Section 4.5. Breaking the analysis at this point enables a discussion about the influence of ownership in strategic decisions, which will follow in Section 8.2.

Table 8.1: Evidence of Corporate and Business Strategy, 1989-1995

	Concentrated Growth	Market Development	Product Development	Innovation	Horizontal Integration	Vertical Integration	Concentric Diversification	Turnaround	Divestment	Joint ventures	Business Strategy Business	Business Strategy Domestic
EME Distribution Supply	✓ ✓	✓		✓		✓	✓	✓		✓	Utility Focus	Utility Focus
Eastern Distribution Supply	✓ ✓	✓	✓	✓		✓	✓	✓		✓	Utility Focus	Utility Focus
London Distribution Supply	✓ ✓	✓ ✓	✓	✓		✓				✓	Utility Focus	Utility Focus
Manweb Distribution Supply	✓ ✓	✓	✓				✓			✓	Utility Focus	Utility Focus
Midlands Distribution Supply	✓ ✓	✓		✓		✓	✓			✓	Utility Focus	Utility Focus
Norweb Distribution Supply	✓ ✓	✓	✓			✓	✓			✓	Utility Focus	Utility Focus
Northern Distribution Supply	✓ ✓	✓ ✓		✓		✓	✓			✓	Utility Focus	Utility Focus

Table 8.1: Evidence of Corporate and Business Strategy, 1989-1995 continued

Seaboard Distribution Supply	✓ ✓	✓				✓	✓			✓	Utility Focus	Utility Focus
Southern Distribution Supply	✓ ✓	✓				✓	✓			✓	Utility Focus	Utility Focus
SWALEC Distribution Supply	✓ ✓	✓ ✓	✓	✓		✓	✓			✓	Utility Focus	Utility Focus
SWEB Distribution Supply	✓ ✓	✓ ✓				✓				✓	Utility Focus	Utility Focus
Yorkshire Distribution Supply	✓ ✓	✓		✓ ✓		✓	✓			✓	Utility Focus	Utility Focus

Table 8.2: Evidence of Corporate and Business Strategy, 1995-2000

	Concentrated Growth	Market Development	Product Development	Innovation	Horizontal Integration	Vertical Integration	Concentric Diversification	Turnaround	Divestment	Joint ventures	Business Strategy Business	Business Strategy Domestic
EME ¹ Distribution Supply	✓ ✓	✓	✓			✓	✓				Utility Focus	Utility Focus
Eastern Distribution Supply	✓ ✓	✓C	✓		✓ ✓	✓				✓	Utility Focus	Utility Focus
London Distribution Supply	✓ ✓	✓ ✓	✓		✓ ✓	✓				✓	Utility Focus	Utility Focus
Manweb ² Distribution Supply	✓ ✓					✓					Utility Focus	Utility Focus
Midlands Distribution Supply	✓ (✓)	(✓)				(✓)	(✓)	✓	✓		(Utility Focus)	(Utility Focus)
Norweb ³ Distribution Supply	✓ (✓)	(✓C)	(✓)	(✓)				✓	✓		(Utility Focus)	(Utility Focus)
Northern Distribution Supply	✓ ✓	✓ ✓	✓	✓		✓	✓			✓	Utility Focus	Utility Focus

Table 8.2: Evidence of Corporate and Business Strategy, 1995-2000 continued

Seaboard Distribution Supply	✓ ✓	✓	✓			✓				✓	Utility Focus	Utility Focus
Southern Distribution Supply	✓ ✓	✓ ✓	✓	✓	✓ ✓	✓					Utility Focus	Utility Focus
SWALEC ⁴ Distribution Supply	(✓) (✓)	(✓C)							✓ ✓		(Utility Focus)	(Utility Focus)
SWEB Distribution Supply	✓ (✓)	✓ (✓)	(✓)		✓	(✓)			✓		(Utility Focus)	(Utility Focus)
Yorkshire Distribution Supply	✓ ✓	✓ ✓	✓	✓		(✓)		✓		✓	Utility Focus	Utility Focus

Notes: The advent of takeovers in the industry has presented a problem of assessing strategy in four cases in particular. These are
1 EME: bought by PowerGen in 1998, and now effectively a subsidiary; 2 Manweb: bought by Scottish Power in 1995 and now effectively just a brand name; 3 Norweb: bought by North West Water in 1995 and now effectively a subsidiary within United Utilities; 4 SWALEC: bought by Welsh Water in 1995, and subsequently divested

Key: ✓ indicates current strategy position
(✓) indicates discontinued strategy position, usually following divestment
✓C indicates membership of a consortia, as part of market development activity

The analysis of strategic content involved referring to the work of authors such as Pearce and Robinson (1994), Porter (1980) and Chrisman *et al* (1988), on systems of classification. Details of each were reviewed at some length in Section 2.5, and their use as a framework for research justified in Section 3.4.3.1. Readers will note, however, that the full range of grand strategies (Pearce and Robinson, 1994 and Section 2.5.4) have not been included in the variables presented in Tables 8.1 and 8.2. The decision to exclude four grand strategies: conglomerate diversification; liquidation; strategic alliances; and consortia, has been taken on the grounds that none of these strategies were particularly common with the RECs over this period, as the various tables presented in Chapter's Five to Seven will attest. However membership of consortia is proving increasingly popular, and their impact upon market development activity will be reflected in Table 8.2. EME is the only REC to engage in marked conglomerate diversification, and reference to that activity will be made in relation to its need for a turnaround strategy, as described in Table 8.1. Readers will also note that the full range of business level strategies provided by Chrisman *et al* (1988, and Section 2.5.5.4) have not been included in this analysis. This decision is based upon the evidence presented, which suggests that companies had a very limited range of options available to them in relation to business strategy, at least in relation to generic concepts of strategy. The author judged that a full representation of all sixteen options was therefore unnecessary.

8.1.1.1 Summary of Observations

Before beginning this assessment, it is necessary to make the following key clarification. This exercise is aimed at identifying patterns of strategy that conform to generic conceptual definitions. As a result, for example, to say that Company A and Company B both engage in market development does not imply that they both engage in the same form of market development, nor that they achieve the same degree of success in this endeavour. Inevitably, some form of differentiation occurs in the detail of the chosen strategy, and approaches can expect to have differing degrees of impact depending upon a variety of factors. The details of the precise content of strategy was presented in each individual case study in Chapter's Five to Seven, while factors impacting upon strategy are addressed in Section 8.2. The purpose of this exercise is, therefore, simply to identify the generic areas of similarity or dissimilarity between the companies.

Taking this clarification into account, Table 8.1 presents a picture of a relatively homogeneous industry, where strategy choices appear to be fairly uniform. All of the companies pursue a concentrated growth approach in both distribution and supply, and all are engaged in some form of market development activity in their supply activity. Such patterns can be seen as being almost integral for a company seeking to prosper at this

time, as they must seek to make their existing businesses as effective as possible, and they must also seek some form of organic growth. The sample's behaviour in other areas of grand strategy selection does point to some differences, however.

Firstly, with respect to innovation. A number of the companies have taken on the role of innovator within the industry, although the extent of this innovation role can not be compared with that of a prospector as identified by Miles and Snow (Section 2.5.6.2.2).

Innovators have led the industry:

- ▶ into the concentric gas market;
- ▶ into backward integration in support of the core concentrated growth approach by either developing generation capability, or securing access to down-stream gas assets;
- ▶ into new products like green tariffs, or the area of energy management and consultancy for large customers;
- ▶ into dual fuel, or bundled product offerings in supply; or
- ▶ into the use of affinity arrangements to widen the appeal of their product offering.

The key aspects to identify in relation to this period are that:

- a) the innovative companies have led their peers into new areas or the use of new approaches; and
- b) that that role has often been shared amongst companies.

Innovation in the industry has therefore tended to be relatively non-controversial, and related, and acts to inform the rest of the industry about viable business opportunities which are perceived to exist. It is not particularly speculative, although there are cases such as EME's experiment with conglomerate diversification that do count as being speculative. It is an interesting reflection upon the conservatism of the industry at the time, that EME's conglomerate diversification did not provide a blueprint for their peers, who preferred to follow clearly related lines of business development. Some companies, like Eastern or Midlands, have been more innovative than others, but as stated previously there was at the time no single company that was leading on all fronts.

Secondly, there were companies who took a more cautious approach. In this early period, companies like Manweb, London and even Southern made a virtue out of limiting their diversification away from their core distribution business. They adopted new developments, such as entry into gas or generation when it became clear that these were now regarded as core activities (although Manweb did not ever develop meaningful generation assets), but saw these new developments as being secondary to running their

Table 8.3: Strategy in 1990

Company	Statement of 'Prospects'
East Midlands	<p>"...distribution will continue to be the primary business activity...the strategy in the supply business will be to continue to offer terms, which it believes to be competitive and profitable, to customers both within and outside its area...(and)...make a small contribution to profit...participation in generation projects will provide an opportunity for a potential new source of profit...appliance retailing and electrical contracting businesses are not expected to contribute significantly...intends to build upon its past achievements and examine potential areas of development in all business areas...aim of improving standards of performance" (Kleinwort Benson, p.220).</p>
Eastern Electricity	<p>"...committed to further improvements in productivity and efficiency...distribution of electricity will remain (the) core business and that most of its future profit will come from this business...supply business is expected to make a small positive contribution to profit...has progressively developed marketing and sales strategies...also aims to invest in generation schemes in order to produce profit...in a sound position to take advantage of any upturn (in retailing and contracting sectors) (Kleinwort Benson, 1990, p.168).</p>
London Electricity	<p>"distribution is the core business of London...and is expected to contribute the great majority of...total operating profits....the directors intend to exploit opportunities for cost savings such that...(allied to)...expected growth in the number of units distributed...(will achieve)....profit growth in the distribution business...supply will make a small contribution to total operating profit....appliance retailing and electrical contracting businesses together will make a modest contribution" (Kleinwort Benson, 1990, p.273).</p>
Manweb	<p>"distribution is the core business and contributes almost all of its operating profit...growth in revenue coupled with firm control of operating costs should enable real growth in profits...supply is likely to generate a small proportion of operating profit and aim to manage to enable a contribution to overall profitability...appliance retailing and electrical contracting are unlikely to be profitable" (Kleinwort Benson, 1990, p.326).</p>
Midlands Electricity	<p>"distribution to remain the Company's core business and to account for the great majority of its future profits...supply business will over time contribute a small proportion of the total operating profit...is involved in Teeside power project and intends to pursue opportunities for profitable participation in this and other generation projects....appliance retailing unlikely to contribute to operating profits...(while)...electrical contracting business should continue to contribute a small proportion" (Kleinwort Benson, 1990, p.378).</p>
Norweb	<p>"distribution will account for a substantial part of profits...(through)...in units distributed ...and the achievement of operational efficiency improvements...supply...should contribute to total operating profit...steps to improve productivity and to contain costs should enable appliance retailing and electrical contracting to return to profitability...continue to have a high priority...Norweb Generation...is not expected to contribute significantly in the medium term" (Kleinwort Benson, 1990, p.484).</p>

Table 8.3: Strategy in 1990 continued

Northern	“...objectives to achieve growth in profit and to promote enterprise and quality of service throughout its businesses...expect that distribution of electricity will remain the primary business activity...and will contribute the majority of profit...(through)...increased turnover and greater efficiency...aims to achieve profitability in the supply business and will pursue a policy of minimising purchase cost risk...has an option to make an equity investment in Teeside Power and is also involved in detailed appraisals of two other major generation schemes...has established strategies for the future development (of retailing and contracting) (Kleinwort Benson, 1990, p.430).
Seeboard	“distribution...is expected to remain Seeboard’s core business, providing the major source of the Company’s profits...(with)...the prospects of growth in units distributed and the potential for cost savings...(present a)...sound basis for real earnings growth....expect the supply business to make a small positive contribution to profits...has a strategy to improve the current level of profitability of the electrical contracting business....will consider investment in generation, most probably in joint venture...as long as the financial returns appear attractive” (Kleinwort Benson, 1990, p.536).
Southern Electric	“...the distribution business will be the main contributor to operating profit, providing a sound basis for real profit growth....expect the supply business to make a small contribution to the Company’s profits in the medium term...the Company’s trading businesses will continue to be developed so as to be in a position to take advantage of any improvements in trading conditions...equity participation will be considered in generation and CHP projects....privatisation has offered new challenges and opportunities” (Kleinwort Benson, 1990, p.589).
SWALEC	“distribution should be able to achieve real growth...and contribute the great majority of profits...do not expect supply business to provide a material contribution to earnings...objective to improve the financial performance of appliance retailing and electrical contracting businesses by building on their strengths; a comprehensive review of appliance retailing is underway...will consider participation in generation projects where they believe an attractive long term return will be achieved and accordingly the Company is involved in the Teeside power project” (Kleinwort Benson, 1990, p.642).
SWEB	“distribution...is expected to remain the core business and contribute the majority of its profits...believe that costs can be controlled without adversely affecting the quality of customer service....the prospects for supply...(are for)...small profits in the medium term....has an option to invest in Teeside Power and intends to pursue opportunities for profitable participation in this and other generation projects....the trading business is not expected to contribute significantly to profits...well placed to take advantage of wider commercial opportunities that will be available” (Kleinwort Benson, 1990, p.696).
Yorkshire Electricity	“distribution will remain the core business and...the majority of future profit will come from this business...supply...should contribute a small proportion of the overall profit...appliance retailing and electrical contracting will continue to play an important role in complementing the primary businesses....will continue to examine opportunities for profitable participation in generation projects...the directors recognise that there will be opportunities to extend...activities by building on its existing strengths and they plan to extend the Company’s activities when suitable commercial opportunities arise in areas related to the Company’s existing activities...(aim to) take advantage of the wider commercial opportunities available” (Kleinwort Benson, 1990, p.748).

Table 8.4: Strategy in 1994

Company	Statement of 'Strategy'
East Midlands	"we have concentrated management time and effort on developing our core electricity businesses. This has involved reorganising our structure, changing work practices, building on our considerable experience and success as a low cost electricity company and introducing improved information systems. At the same time our non-core businesses have been reviewed with the emphasis being placed on eliminating losses" (EME, 1994, p.6)
Eastern Electricity	strategy at floatation involved "concentrating on our core electricity business and focussing our interest in other opportunities on related businesses, where our skills and experience could add value...electricity generation and gas supply. In keeping with this we developed free-standing businesses for each main activity....our vision is to provide a quality of service in the energy and network management sectors which will make us the customer's choice. Our core business of electricity supply and distribution will remain central to our success, but we aim to enhance shareholder value by further developing our investments in electricity generation, expanding our gas business and searching out other profitable opportunities where our core skills and experience can add value" (Eastern group, 1994, p.5).
London Electricity	"our core business will continue to be regulated " (London Electricity, 1994, p.3), "we provide network services not only within the regulated franchise area, but increasingly to private customers including the London airports and commercial centres in the capital. We supply electricity and a range of regulated services to nearly 1.7 million smaller customers in London leading the industry with out standards of performance. We compete to supply electricity and other energy related products including gas and energy management both within London and in the wider markets that are opening rapidly as deregulation proceeds" (London Electricity, 1994, p.4)
Manweb	"immediately after privatisation, we concentrated on reducing costs in the business. We implemented best practice, improved performance, and increased our efficiency. We have more recently been focussing upon improving our customer service. The twin strands of our strategy - to increase efficiency and improve service - will continue to be the driving force in ensuring we achieve our objectives of being a high quality, low cost utility" (Manweb, 1994, p.7).
Midlands Electricity	"our major business is electricity distribution and supply. Through subsidiary, associate and joint venture companies we are also active in power generation, the supply of natural gas, electrical contracting, energy services and retailing. We aim to provide the highest standards if service to our customers and to produce superior long term financial returns for shareholders" (Midlands Electricity, 1994, p.1)
Norweb	"at present the vast majority of profits come from the regulated businesses. Looking to the future it is important to increase profits from non-regulated businesses to provide a better balance for long term growth. The Company's strategy is to diversify and expand profitably in those business areas where there is already considerable expertise and experience" (Norweb, 1994, p.2)
Northern	"at the time of privatisation Northern Electric identified and targeted five key elements of business strategy. These were: marketing for unit volume growth, especially in higher margin categories; achieving excellence in customer service; reducing our costs; maintaining a profitable and low-risk electricity supply business; and prudently developing new businesses that are clearly related to the Company's expertise and strengths. These targets have been pursued consistently since privatisation" (Northern Electric, 1994, p.6)

Table 8.4: Strategy in 1994 continued

Seeboard	"Our strategy is to invest in the distribution and supply of electricity whilst developing related businesses in a way which draws on our skills and knowledge within energy markets. We strive to optimise value and service to customers and to maximise returns to shareholders" (Seeboard, 1994, p.1)
Southern Electric	"our aim is to deliver services of the highest possible quality at the lowest achievable cost, and to promote the efficient use of energy by marketing competitively priced, highly efficient applications and systems. Our long-term strategy for growth is to continue to develop, in conjunction with the electricity business, our range of high quality utility and energy-related services, so that these businesses will provide at least 15% of our operating profits by the end of the decade" (Southern Electric, 1994, p.1)
SWALEC	the company had adopted a consistent strategic approach since privatisation. "This has been to drive the core electricity business hard, taking out costs and increasing productivity; to improve the quality of customer service; to reduce electricity prices in real terms; and to develop an increasing stream of earnings from non-core activities, focussing on areas where we can add value in combination with a competent partner" (SWALEC, 1994, p.3).
SWEB	"we are committed to concentrating on the distribution and supply businesses and, in particular, the pursuit of cost reduction whilst improving customer service. In assessing potential corporate development beyond this, the central criterion is that we will develop new business activities only if they add greater value for our shareholders than they could achieve for themselves by direct investment". These included energy related developments such as "selective entry into gas market sectors and judicious investment in electricity generation and renewable energy projects", while investment in utility services included "selective development of opportunities in digital communications" (SWEB, 1994, p.2).
Yorkshire Electricity	"a well balanced strategy which focusses on the efficiency of our core business and the development of quality earnings through related activities. While our distribution business will continue to be our main strength, other parts of the business are increasingly making an important contribution" (Yorkshire Electricity, 1994, p.3).

distribution businesses as effectively and as efficiently as possible.

Fundamentally, however, the differences discussed here are only matters of degree. As discussed in Section's 5.5.4, 6.5.4, the companies have tended towards adopting relatively similar generic approaches, with differences existing primarily at the margin. All of the companies were relatively risk averse, as witnessed by the extensive use of joint ventures to provide missing expertise, and the tendency to engage in related diversification, if they sought diversification at all. This convergence upon similar strategies, divided only by the degree to which they are pursued, presents an interesting question about the extent to which divergent strategy was expected, or predicted, by the companies. Did they expect to proceed cautiously, or was there an expectation that a wide range of opportunity was available to each in the new era? Some illustration of this matter may be forthcoming from an examination of the stated strategic objectives of the companies at key points in this early stage following privatisation.

Table's 8.3 and 8.4 show the public expression's of strategic intent from the companies in 1989 and 1994. The first set of statements are all drawn from the RECs pathfinder prospectus (Kleinwort Benson, 1990), and the second set from the annual reports issued at the end of financial year 1993-94. What they show is a fairly homogeneous picture of companies that are not by their nature particularly speculative, which all acknowledge the necessity of a core focus, and all perceive that growth will be incremental and related. Exceptions do appear. EME in 1990 was arguably more aggressive in its outlook, but by 1994 had been subjected to a turnaround and was much more conservative. Indeed, the most aggressive and outward looking of the companies in 1994 was Norweb. This suggests that there was a more widely accepted understanding that a conservative approach was the appropriate one to adopt in this industry as the companies sought to understand the changes they had been subjected to. Alternatively, it may reflect failings on the part of the managers of the companies to understand the potential offered by their capabilities and resources.

The final observation to be drawn from Table 8.1 regards the choice of business strategy. Table 8.1 shows that in every case companies followed a utility focus strategy, which as Chrisman *et al* note (1988) involves basing their domain navigation attempts upon both price and non-price weapons. This reflects a reality of competitive life within the ESI, where customers will expect low prices to be the norm, and will differentiate between suppliers upon the basis of non-price attributes like service or other added value factors. This, as the evidence of Chapter's Five to Seven shows, was especially the case in the commercial sector, where customers were able to chose their supplier during this period.

While many customer decisions were no doubt taken on the basis of price alone, the ability of suppliers to offer radically lower cost quotations was limited, by simple economic reality. All of the companies came to accept that the business community demanded both a low price, and added value services, making an utility focus approach the imperative. In the domestic arena, the companies were compelled to provide a utility approach to customers by the Regulator, who demanded both low costs and high levels of service. While these customers were at that time unable to chose their supplier, the Regulator acted as a surrogate on their behalf, and drove prices down and standards up through the exercise of regulation. Overall, therefore, companies had to adopt a segmented utility or segmented utility focus approach in supply, and this lack of choice persists. As stated throughout the research, the companies did not have the option of developing a business strategy for distribution as it remains a monopoly activity.

There is a more marked difference in generic approach evident from an examination of Table 8.2. While the table shows a number of companies whose profiles look very similar to those shown in Table 8.1, key changes are evident. These are that:

- ▶ firstly, a number of companies have stopped participation in the supply business, as well as other non-regulated activities. Midlands, Norweb, SWALEC and SWEB are all no longer engaged in supply, and now maintain a very focussed concentrated growth approach centred upon distribution;
- ▶ secondly, that as a result of the decisions taken by the above companies to divest their supply activities other companies have increased the size of their involvement in competitive activities. Eastern, London, and Southern have all horizontally integrated their existing businesses with those of the companies that have divested their interests: Norweb, SWEB and SWALEC respectively, while Midlands' business is now owned by National Power, which also purchased the supply business of Independent Energy. In addition to this trend, other RECs: EME and Manweb, have had their supply activities absorbed by their new owners: PowerGen and ScottishPower respectively. Consequently, while the total number of companies involved in both industries falls, a considerable number of the key industry players retain or have developed a dual focus upon distribution and supply; and
- ▶ thirdly, and additionally, companies are beginning to develop horizontally integrative approaches in distribution. To date, London and Eastern have merged their businesses, while SWEB has taken over SWALEC's business, and Southern's business has been merged with that of its partner, Scottish-Hydro. More developments of this sort can be expected.

Table 8.5: Current Strategy

PowerGen (owner of EME)	"Our vision is to create one of the world's leading independent electricity and gas businesses. We aim to grow by generating, distributing and supplying power both in the UK and other countries in which we operate" (PowerGen, 2000)
Texas Utilities (owner of Eastern Group)	"TXU is well positioned to continue its leadership role in the utility industry with an established strategy to achieve excellent operations of significant scale in selected regions, which optimize a portfolio of assets, capabilities and customer relationships across multiple products and services" (TXU, 2000)
London Electricity (part of EdF Group)	"A world operator in the power field, Electricité de France has developed an international strategy based on investment and the sale of services. The company relies on partnerships with electrical utilities, manufacturers and investors. Electricité de France is thus present in a wide range of foreign companies. Electricité de France carries out its activity on all continents where the company develops its know-how in the fields of electricity generation, transmission and distribution, as well as utility management" (EDF, 2000).
ScottishPower (owner of Manweb)	"The markets in which we operate are changing at a speed unthinkable only a few years ago. But we have created a group with a unique set of businesses, geographic range and skilled management. These should ensure that your company is in the best position to meet the challenges and exploit the opportunities presented by further global consolidation, as well as the rapid changes taking place in the web and Internet technologies. We remain focussed firmly on exploiting these advantages to create outstanding shareholder value" (ScottishPower, 2000).
GPU UK (formerly Midlands Electricity)	"GPU Power UK's aim is to be the best performing electricity distribution business in the UK, providing customers with outstanding service and value for money" (GPU Europe, 2000a).
United Utilities (owners of Norweb)	"United Utilities is a multi-utility with a focussed strategy to: improve the efficiency of its regulated businesses; maximise multi-utility synergies; and develop its non-regulated businesses using its core skills of asset management and customer relationship management. We seek to provide growth for shareholders, value-for-money for customers, challenging and rewarding jobs for employees, and positive benefits for society and the environment" (United Utilities, 2000)
Northern Electric (part of MidAmerican Group)	"MidAmerican has continuously made investments in advanced facilities and technological improvements, allowing the Company to provide electricity at a lower, more competitive price. Many utility companies are operating technologically outdated power plants at a relatively high cost because the lack of competition has not provided incentive for upgrades" (MidAmerican Energy, 2000)
Seeboard and Yorkshire Electricity (both parts of merged AEP/CSW Group)	"As a result of our merger, AEP is not only a bigger company, we're a better one. We've reviewed all of our operations and compared them against the best practices in the world. We've reduced costs and become more efficient so we can offer our customers reliable service at low prices. And we're continuing to streamline operations so we remain competitive in the future" (AEP, 2000).

Table 8.5: Current Strategy continued

Scottish and Southern Energy (including Southern Electric)	"we are determined to maintain our position as the most efficient operator in distribution and supply and to improve our customer service still further in terms of efficiency and cost effectiveness. We will continue to grow our mass market supply business....we will look to develop further our generation portfolio whenever such investment makes sound economic sense....our focus remains within the UK, and in the regulated utilities market, where we are able to bring our core skills to bear" (SSE, 2000a, p.7)
Hyder (owners of SWALEC)	"Hyder is principally concerned with water, waste water, power, roads, bridges, tunnels, buildings, railways, ports and airports - all vital to everyday life and economic growth. For infrastructure schemes to succeed, they must demonstrate that they meet the needs of the end users and operators and they can be delivered at the lowest possible whole life costs. Hyder provides infrastructure - for life. For 150 years, across five continents, Hyder has been committed to serving the infrastructure needs of people. With assets of over UK£2.5bn and more than 9,000 employees, Hyder is uniquely able to operate as a whole or in a modular way to meet client needs" (Hyder, 2000).
Western Power Distribution (formerly SWEB)	"With a company-wide focus on customer service, SWEB now has the fewest number of customer complaints of any of the regional electricity companies. Overall customer satisfaction is approximately 95 percent with nearly 65 percent of customers being very satisfied with the service they receive from SWEB. Reliability of SWEB's distribution network has improved by 45 percent since 1995, despite southwest England's rugged terrain and frequent storms" (Southern Company, 2000).

Therefore, since 1995 real change has occurred, and different perspectives have emerged. Some companies are now solely operating in regulated sectors, while others have built up their competitive activities in an attempt to achieve critical mass. Some, like Eastern and London, are attempting to be key players in both a consolidated distribution industry and the converging supply industry. The other companies: Seeboard, Yorkshire, and Northern, are all pursuing similar generic approaches to those recorded in Table 8.1, with the exception that all are now owned by US utilities and hence may have equally expansive objectives to those evidenced by Eastern, London, and Southern, but are distinct because their attempts to grow have been organic rather than based upon acquisition. The evidence suggests, therefore, that very distinct strategic approaches exist within the industry in relation to the content and generic characteristics of corporate strategy. This can be reflected by reference to Table 8.5 which shows the current strategic objectives of the companies of the group, or of their new owners. The same can not be said for business strategy, however, where the imperative to offer a utility approach is arguably greater than before 1995, due to the increasingly competitive nature of both the commercial and domestic supply markets.

Therefore, it would appear that there now exists three distinct strategic approaches within the REC industry. These are: (i) the local service provider; (ii) the integrated energy company by organic growth; and (iii) the integrated energy company by acquisition. Up until recently, it was possible to argue that a fourth distinct approach existed: the multi-utility. However, after a series of divestments by Hyder and United Utilities, the only possible example of such a company would be ScottishPower which more accurately fits within the integrated energy company by acquisition grouping. The evidence of change after 1995 points to the influence of changing patterns of ownership upon strategy, and even suggests that ownership has become the crucial factor driving strategy. This issue will be returned to in Section 8.2 of this chapter, and will become a key consideration during the following field work chapters.

The author argues that the evidence presented in Chapter's Five to Seven, and analysed here provides a compelling argument that this assessment is accurate, and that a high degree of confidence can be placed in this conclusion, even though it is constructed from secondary source material, and is arguably a subjective interpretation. The author does recognise the need for external verification of these conclusions, and sees the building of the propositions in Section 8.1.3, leading to the development of hypotheses for empirical analysis in future research, as contributing to this process.

8.1.2 Analysis of Strategic Combinations

This section presents an assessment of the strategic combinations evident within the industry over the period since privatisation, as reported in Chapter's Five to Seven. This process continues the work of extending Pearce and Robinson's (1994, p.246-247) analysis of grand strategies, as described in Section 2.6. Pearce and Robinson (1994, p.264-265) presented a selection of matrices which showed grand strategy clusters, but did not specify how these grand strategies interrelated. This section aims to synthesise the preceding analysis to enable the identification of any general patterns across the sample as a whole. This exercise is undertaken by the use of two tables, Tables 8.6 and 8.7, which show the combinations adopted by the companies in two periods: from 1989-1995; and 1995-2000. The decision to use 1995 as the break between the two periods follows the logic explained in Section 8.1.1, in particular to ensure consistency and to observe the impact made by changing patterns of ownership. Readers are referred to Figure 2.6 for a full explanation and diagrammatical representation of the combinations under discussion.

It is perhaps not surprising, following the analysis of strategic content in the preceding section, to witness a considerable degree of similarity among the strategic combinations developed within the industry. In the period 1989-1995, there were only two variant's evident within distribution: the core concentrated growth approach (Variant 1), and the organic market development approach (Variant 2).

This reflects the limited nature of growth opportunities within distribution leaving organisation's with the limited options of working their existing business as hard as possible, and attempting to attract new business only through involvement in regional development activity and large infrastructural projects. In the area of supply, there is evidently as much commonality as in distribution. Four variants are presented, including the non-viable Variant 6, which strictly speaking had been altered to a Variant 5 by EME by the end of 1995. The three other variants were:

- ▶ Variant 3A, external market development, utilised only by Manweb and reflecting its limited ambition in developing its presence in supply;
- ▶ Variant 5, a simple multiple approach, as used by London and also reflecting that Company's limited ambition which principally involved a limited amount of backward integration in support of the core concentrated growth approach; and
- ▶ the more commonly observed Variant 5A, used by all of the other RECs and showing a fully integrated approach to extending the core concentrated growth option including backward integration, and both organic and external market and product development.

Table 8.6: Strategy Combinations 1989-1995

	Distribution	Supply
EME	Variant 1	Variant 6
Eastern	Variant 1	Variant 5A
London	Variant 1	Variant 5
Manweb	Variant 1	Variant 3A
Midlands	Variant 1	Variant 5A
Norweb	Variant 1	Variant 5A
Northern	Variant 2	Variant 5A
Seeboard	Variant 1	Variant 5A
Southern	Variant 1	Variant 5A
SWALEC	Variant 2	Variant 5A
SWEB	Variant 2	Variant 5A
Yorkshire	Variant 2	Variant 5A

Table 8.7: Strategy Combinations 1995-2000

	Distribution	Supply
EME	Variant 1	Variant 5A
Eastern	Variant 3C	Variant 5B
London	Variant 3C	Variant 5B
Manweb	Variant 1	Variant 5
Midlands	Variant 1	N/A
Norweb	Variant 1	N/A
Northern	Variant 2	Variant 5A
Seeboard	Variant 1	Variant 5A
Southern	Variant 3C	Variant 5B
SWALEC	N/A	N/A
SWEB	Variant 2B	N/A
Yorkshire	Variant 2	Variant 5A

These findings largely support the conclusions of Section 8.1.1 regarding the relative similarity of generic content and strategy among the sample. There is also relative similarity between the strategic combinations on display, with most companies operating both Variant 1 and 5A in their two core businesses.

The second period, 1995-2000, witnesses the development of a more complex picture. The first point to note is that the RECs who have left the supply industry are simply operating combinations within their core distribution business. Within this sub-group SWEB/WPD stands out as it is operating Variant 2B, an extended market development approach featuring horizontal integration, in recognition of the Company's recent take over of the SWALEC distribution business.

The second point to note is that among the remaining RECs, a clear pattern emerges between the integrated energy company by organic growth, and the integrated energy company by acquisition forms identified in the preceding section. The former group employs a Variant 1 or 2 in its distribution business, and a 5A in supply, while the latter group employs a Variant 3C in distribution and a 5B in supply. This is in no way surprising, as the characteristics that place each company in the forms identified in Section

8.1.1 are simply reflected in the combinations identified in this sector.

This exercise does help to illustrate the points made earlier in relation to:

- ▶ the similarity in a generic sense between the patterns of behaviour being identified within the sample¹; which in turn suggests that
- ▶ the strategies the companies are able to pursue within this industry are to a large extent prescribed by the prevailing conditions within the industry.

This analysis, and the development and identification of areas of clear consistency, may also be seen to reassure the reader as to the confidence that can be placed in the discussion thus far in respect of Objective One. In addition, and given the quite dramatic changes evident in a number of cases between the first and second periods, it may be possible to further suggest that ownership has played a very significant part in the choice of strategy of these companies.

8.1.3 Developing Propositions

Objective Four involved the development of a series of working propositions to be derived from the two core propositions presented in Section 1.3. The aim of developing propositions during this exploratory research was to establish a series of hypotheses which could be empirically tested in wider research, covering the whole of the UK privatised sector, in research following on from this thesis. This section begins the process, by identifying five propositions that can be tentatively proposed, based upon the analysis presented to this point in Section 8.1. The core proposition which relates to Objective One was 'that companies will adopt different approaches to achieve their strategic objectives'. The analysis presented above shows that this may be the case, but only a limited difference can be observed from an analysis of generic behaviour. As such, the following tentative working propositions are established:

- P1 companies will employ a limited concentrated growth approach in ongoing operations within their regulated businesses
- P2 companies will seek to employ approaches to develop critical mass in most if not all of their continuing un-regulated businesses

1

Although once again it is necessary to state that this generic similarity does not imply a precise match in every detail of the strategic content of these companies, nor in the operational processes followed to implement these strategies.

- P3 the approaches mentioned in P2 will of necessity involve a combined price and non-price generic approach, so backing the arguments of a variety of authors against the conclusions of Porter (1980)
- P4 'new core' businesses will evolve incrementally as companies take on the responsibility for identifying viable concentric diversification
- P5 companies will inevitably seek consolidation, either vertically or horizontally, regardless of the regulatory regime within the industry, supporting the work of Helm and Jenkinson (1997)

These propositions have been largely proved by the research conducted during the preliminary stage of this research, but will receive the appropriate degree of scrutiny in the field stage. The author has intentionally made the propositions 'non-industry specific' so they can be employed beyond the electricity industry. However, they are clearly specific to industries which are or retain an element of regulatory supervision.

8.2 Summary of Objective Two

Throughout the analysis presented in Section 8.1, the importance of an understanding of strategic drivers has become clear and has been constantly emphasised. The author believes that it is necessary to understand the impact of the various drivers on each company to establish whether the consistency of patterns of strategy identified in the preceding section results from consistency in the influence of strategic drivers, or is a product of other factors such as tradition, or even coincidence.

Objective Two of this research was previously outlined in Section 1.3. It involved the identification of factors which impact upon the direction of REC strategy, in relation to choice and content as identified in Objective One, and understanding the nature of that impact. Once again, however, it is necessary to note the qualification made in Section 1.3 that it is not the author's intention at this stage to attempt to correlate strategic drivers to the patterns of strategic content identified earlier, although this is an area that will be returned to in Chapter Twelve. The aim of this section of research was to comment upon general patterns, rather than seeking specific relationships. To this end the relative weight of a variety of factors, identified in Section 2.2.3, was assessed during the content analysis process undertaken for Objective One. The findings for each of the cases study companies were presented at the conclusion of Chapter's Five to Seven, and this information is collected and presented in Tables 8.8 and 8.9.

However, while the process in relation to Objective Two was underway, a number of concerns became apparent which assigned doubt upon the degree of confidence that could be placed upon the observations:

- ▶ firstly, there was a concern that all of the factors impacting upon the strategy process had been identified and accounted for. During the analysis a number of additional factors which could have impacted upon the process were identified, additional to the four core factors identified in Section 2.2.3. Of these, ownership has emerged as a clearly very important factor, especially following the expiration of the Government's golden shares in 1995;
- ▶ secondly, there was a concern that textual or content analysis of influencing factors was less likely to be able to gauge the impact of internal factors, giving the erroneous impression that external factors were more important. It is logically easier to gauge the impact of external factors from a secondary analysis of the kind undertaken in Chapter's Five to Seven, by virtue of the fact that it is inevitably harder to gauge the impact of internal factors from the outside; and
- ▶ thirdly, the degree of subjectivity inherent in any process of this kind. Clearly, the process of triangulation is much more complicated when subjective detail, rather than verifiable facts, are concerned. The observations developed here consequently need to be triangulated against other sources and forms of data.

These three concerns illustrate the importance of further investigation of this issue, to extend and validate the tentative analysis which now follows. One immediate impact of these concerns is that the analysis of Objective Two requires two discrete sections to achieve its objectives: the first to explore the possible influence of deductively identified strategic drivers, and the second to explore the inductively identified strategic drivers.

8.2.1 Deductively Identified Drivers

The deductively identified drivers are those presented in Section 2.3.3, and include external factors, internal factors, leadership and regulatory factors. While the analysis is inevitably tentative, the following observations are possible with reference to Tables 8.8 and 8.9:

- ▶ the regulator was a greater influence over strategy in the early period, than were external factors: more companies were more focussed upon their distribution activities than their competitive activities and this is reflected in the regulator's greater influence;
- ▶ that the companies that were more interested in expanding their competitive activities were more influenced on the one hand by their available resources, and upon the other by their organisational leadership; but

- ▶ that it would be unwise to argue that a decision not to pursue a competitive approach did not also require strong leadership, as is evident in the case of Manweb; and
- ▶ that there are very few cases identified in Table 8.8 of factors being 'less important': represented by 1 tick. This may reflect the fact that the industry was still in the early, uncertain, days following liberalisation, and consequently companies needed to pay close attention to all possible factors. However, this may of course be a subjective interpretation and does require further analysis.

In relation to the latter period, the following patterns can be identified:

- ▶ that the basic principal equating the Regulator's influence with the extent of a reliance upon regulatory profits remains;
- ▶ that the close relationship between external factors, leadership and resources also remains;
- ▶ that the impact of leadership is reduced for companies which are owned and operated within larger groups, and where autonomy has not been provided to internal managers;
- ▶ that the companies identified as integrated energy companies need to be aware of influences from all possible quarters; and
- ▶ that some companies retreat from competitive markets has removed the influence of external factors, and is indicative of the increased intensity of competition among a smaller number of organisations.

This analysis suggests that as companies have become more specialised, and have adopted focusses which are market specific, so the key influences related to their particular focus predominate and the other influences appear to have less importance. Therefore the regulator is more influential in organisations like Manweb, Midlands and SWEB than organisations like Northern or Eastern. It should be noted, however, that moves like that which saw Eastern merge its distribution business with London do act to increase the Regulator's influence over these companies when their high competitive markets profile would initially suggest otherwise.

All of the above analysis is, however, speculative and needs to be assessed further. The above analysis will be subjected to further testing in the field study stage of the research through in-depth interviews with senior managers. To help in this process, a series of tentative propositions will be developed in this section to identify the key issues to be pursued. Before that occurs, however, it is necessary to address the question of the inductively identified drivers of strategy and to assess their contribution to this debate.

Table 8.8 : Strategy Drivers, 1989-1995

	External	Internal	Leadership	Regulatory
EME	✓✓✓	✓✓✓	✓✓✓	✓✓
Eastern	✓✓✓	✓✓✓	✓✓✓	✓
London	✓	✓✓✓	✓✓	✓✓✓
Manweb	✓	✓✓	✓✓✓	✓✓✓
Midlands	✓✓	✓✓	✓✓	✓✓
Norweb	✓✓✓	✓✓✓	✓✓✓	✓✓
Northern	✓✓✓	✓✓	✓✓	✓✓✓
Seeboard	✓✓	✓✓✓	✓✓	✓✓✓
Southern	✓✓	✓✓	✓✓	✓✓
SWALEC	✓✓	✓✓✓	✓✓	✓✓✓
SWEB	✓✓	✓✓✓	✓✓	✓✓✓
Yorkshire	✓✓✓	✓✓✓	✓✓	✓✓✓

Table 8.9 : Strategy Drivers, 1995-2000

	External	Internal	Leadership	Regulatory
EME	✓	✓	✓	✓✓
Eastern	✓✓✓	✓✓✓	✓✓✓	✓✓
London	✓✓✓	✓✓✓	✓✓✓	✓✓
Manweb	✓	✓	✓✓✓	✓✓✓
Midlands	n/a	✓✓	✓✓	✓✓✓
Norweb	n/a	✓	✓✓✓	✓✓✓
Northern	✓✓✓	✓✓✓	✓✓	✓✓
Seeboard	✓✓✓	✓✓	✓✓	✓✓✓
Southern	✓✓✓	✓✓✓	✓✓	✓✓
SWALEC	n/a	n/a	n/a	n/a
SWEB	n/a	✓✓✓	✓	✓✓✓
Yorkshire	✓✓✓	✓	✓✓	✓✓

Note: Readers will note discrepancies between these tables, and the tables estimating the drivers of strategy in the separate chapters. The former set of tables were subjective assessment's of the influence of strategy over the whole period, while the tables above are attempts to identify the specific influences evident during the two periods.

Key: ✓✓✓ = a high level of influence; ✓✓ = a moderate level of impact; ✓ = a limited impact; n/a = no longer an issue. Readers should note that this assessment is subjective, based upon the author's interpretation derived from the content analysis of secondary source material.

8.2.2 Inductively identified Drivers

During Chapter's Five to Seven, the principal focus of the examination of drivers of strategy rested upon the four areas described above. However, during this preliminary stage other possible key influences were identified. These included structure, the nature of the process, physical location and more significantly ownership. The analysis presented in Chapter's Five to Seven concluded that:

- ▶ structure did not drive strategy. The evidence from the data suggested that in some cases strategy drove structure, while in others strategy emerged alongside structure;
- ▶ that it was difficult to judge whether strategy processes were predominantly

prescriptive or emergent using secondary source data, but that in any case the question of process was closely linked to the question of leadership, strategic choice and the impact of other drivers like industry competitiveness;

- ▶ that location may have been an element in 'market power'/organizational capability but that no conclusive pattern emerged prior to the expiration of the Government's golden share; but
- ▶ that ownership was a particularly important driver of strategy, which was made extremely apparent after the expiration of the golden shares in 1995. Evidence for this contention is provided by the analysis presented in Section 8.1 of this chapter.

It is clear from the analysis conducted in Chapter's Five to Seven, that different patterns of ownership can be witnessed. These patterns, along with the relevant examples from the industry, are presented here:

- ▶ **(i) Strategic Asset Seeking Investments:** this concept, favoured by economists like Dunning (1993), describes companies which are seeking to take investments which "protect, sustain or advance the global competitive position of the investing company vis-a-vis its major national and international competitors" (Dunning, 1993, p.380). Consequently, these investments tend to be made overseas. There would appear to be two forms of companies that fall within this classification: those that see the investment as an 'arms length' purchase allowing a degree of autonomy to rest with the existing managers, and those that do not:
 - ▶ examples of the former group include CSW and Seeboard, Entergy and London, Dominion and EME, Yorkshire Holdings and Yorkshire, Avon Energy and Midlands, Hanson and Eastern;
 - ▶ examples of the latter group include Southern Company and SWEB, Texas Utilities and Eastern, CalEnergy and Northern, EdF and London, although inevitably there will be some blurring around the respective edges of the groups;
- ▶ **(ii) Integrating Investments:** the companies in this group have purchased assets with the intention of subsuming them within their existing operations. These investments tend therefore to conform to the characteristics of either vertical, horizontal, or both vertical and horizontal integration:
 - ▶ examples of this group would include PowerGen and EME, ScottishPower and Manweb, EDF/London and SWEB Supply, WPD/SWEB and SWALEC Distribution, National Power and Midlands Supply, Eastern and Norweb Supply, Eastern Distribution and London Distribution, Southern and SWALEC Supply, and Southern Electric and Scottish Hydro; although again there would be blurring on the boundaries, particularly with the

following grouping; and

- ▶ **(iii) Multi-Utility Investments:** where the companies of this group acquire assets from similar organizations to achieve synergistic savings. These investments tend towards achieving similar characteristics to the integrating investments previously identified, but the focus tends not to be upon merged operations, rather than merged infrastructures:
 - ▶ examples of this group would include Welsh Water and SWALEC (to form Hyder), and North West Water and Norweb (to form United Utilities).

In all cases the purchasing, or dominant, company is presented first. The analysis hints at different motivations for the taking of investments, and consequently offers a variety of different factors that come to play in influencing strategic decisions and content. The author therefore believes that ownership is now a truly significant factor in this debate, and requires attention during the field study.

The choice of companies for this part of the exercise involved specifically targeting particular RECs to extend this process, as discussed in Section 1.6.1. The three companies chosen were Eastern Group, Seeboard, and SWEB, as:

- ▶ Eastern Group was initially an arms length strategic asset seeking investments, when taken over by Hanson, but became a more 'hands on' strategic asset seeking investment when taken over by Texas Utilities. It itself has twice engaged in integrating investment when it took over Norweb Supply, and merged with London Distribution;
- ▶ Seeboard was and remains an arms length strategic asset seeking investment; while
- ▶ SWEB was initially a 'hands on' strategic asset seeking investment, when taken over by Southern, which has become more of an arms length strategic asset seeking investment after the sale of SWEB Supply, and it itself has engaged in integrating investment when taking over SWALEC Distribution.

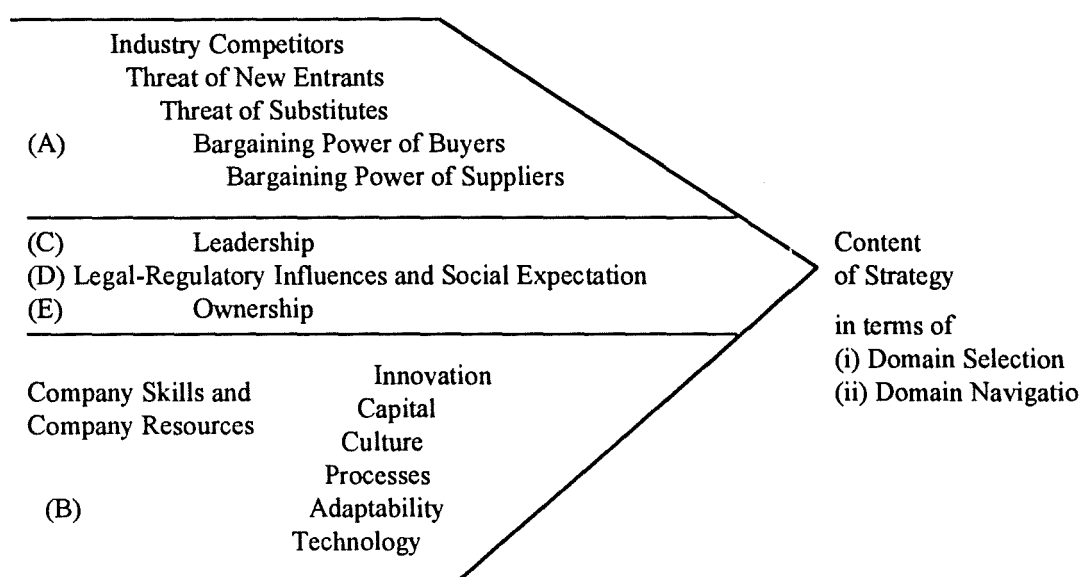
Consequently, three of the four groups identified above are represented in the field case studies. The failure to achieve entry to a multi utility type company is mitigated by the fact that the two examples of multi-utilities have largely failed to achieve their objectives, as witnessed by Hyder's divestment of both SWALEC Distribution and Supply, and United Utilities' divestment of Norweb Supply.

8.2.3 Amending Framework

The framework for the analysis of strategy drivers was established in Section 2.2, and in

particular with reference to Figure 2.3. However, ownership has inductively emerged during the preliminary stage of the research as an issue of clear importance, and needs to be acknowledged in order that it may be examined for in the field stage of the research. Figure 8.1, therefore, is a revised version of Figure 2.3, which acknowledges the impact of leadership and provides a new framework for the continuation of the analysis into Chapter's Nine to Eleven. The framework will provide the opportunity for the consideration of a key issue in respect to the question of drivers: whether the strategic drivers identified as being important in an analysis of a regulated industry are demonstrably the same as the drivers that can be seen to be important in an analysis of a

Figure 8.1: Drivers of Strategy (Revised Version)



more traditional, and less regulated environment. If the drivers are demonstrably different, it becomes consequently much harder to suggest that the various approaches, models and concepts developed in non-regulated environments can be argued to be applicable in non-regulated environments. This issue will be returned to in Chapter 12.

8.2.4 Developing Propositions

Objective Four of this thesis involved the development of a series of working propositions to be derived from the two core propositions presented in Section 1.3. This section continues this process, by identifying five propositions that can be tentatively set out, based upon the analysis presented in Section 8.2 to date. The core proposition which relates to Objective Two was “that different influences will be felt by the different companies during the process (*of developing strategy*)”. The premise underpinning this

objective was that the literature had suggested a variety of drivers which were said to impact upon strategy decisions in traditional competitive environments, but that there was a need to ascertain whether the same would be true of regulated environments. As such, the following tentative working propositions are established:

- P6 that the influence of an industry regulator upon a company's strategy will depend upon the relative proportion of its profits generated from regulated activities
- P7 that companies pursuing a strategy across a range of sectors will be subject to influences from a variety of different drivers, but that the extent of the influence each exerts will be situational
- P8 that organisational size will be a key factor in an organisation's management of its relationship with strategic drivers
- P9 that companies will seek to develop greater control over the impact of strategic drivers by developing key internal capabilities to achieve sustainable competitive advantage
- P10 that ownership is the key influence over strategy

These propositions, unlike proposition's P1 to P5, have not been largely proved by the research conducted during the preliminary stage of this research, and therefore require a greater degree of scrutiny in the field stage. The author has again intentionally made the propositions 'non-industry specific' so they can be employed beyond the electricity industry. However, they are clearly specific to industries which are or retain an element of regulatory supervision.

8.3 Classification

To date, this chapter has identified the strategic content, strategy combinations and drivers of strategy of the twelve companies that make up this research's sample. Before concluding the preliminary stage of this research, and moving on to review the field work element, it is necessary to begin the process of pursuing Objective Three of this research. Objective Three, as defined in Section 1.3 involved classifying the strategies identified in Objective One, against existing generic management typologies. To date, the systems of classification developed by Pearce and Robinson (1994) to describe corporate level strategy, and Porter (1980) and Chrisman *et al* (1988) to describe business level strategy,

have been deployed, and have influenced the analysis reported throughout this thesis. However, thus far the research has not considered the organisational level systems of classification, as identified in Section 2.5.6. This section begins this process, by developing tentative organisational classification's for each of the companies of the sample based upon the generic organisational strategy, structure and process model developed by Miles and Snow (1978).

The Miles and Snow model, as discussed in Section 2.5.6.2, sought to relate corporate strategy decisions in three areas within an organisation: the solution of the entrepreneurial, engineering and administrative problems faced by an organisation, to the environment that it was hoping to serve, its leadership, its resource base and so on. The aim was to determine a classification which was contextually rich in that it suggests a 'whole system' approach: an implied relationship between corporate aims, strategy, structure, leadership, resources and environment. In making tentative assessments of the companies of this sample against the Miles and Snow framework; which as section 2.5.6.2 noted contains four original archetypes to which they and others have added further variant archetypes, the conclusions drawn from the earlier work undertaken in this chapter have been displayed, as illustrated in Table 8.10. This initial analysis refers to the observations made of the latter period, 1995-2000.

Table 8.10 demonstrates the remarkable similarity between the observable patterns of the companies that remain within the industry, as identified by this research. Indeed, given the evidence presented in Table 8.10, it may be possible to suggest the existence of two broad archetypical configurations among the RECs. These REC archetypes are:

- ▶ **the integrated energy company:** those companies that are present in the gas and electricity supply industry, generation, distribution and assorted other related activities; which are seeking market share across the whole of the UK and possibly further; and who are competing on both price and non-price grounds. These companies are effectively developing a dual approach, engaging in both competitive and regulated businesses, where the balance of priority has switched from the traditional regulated distribution business, to the newer competitive energy business. This marks a substantial change in the guiding philosophy of the companies within this archetype; and
- ▶ **the local distribution company:** those companies that have largely retreated from the competitive side of the industry, and which are purely focussed upon their core distribution business, the traditional approach to the industry.

Table 8.10: Classification of the Sample

Company	Strategy Approaches	Combination (Dist/Supp)	Key Influence	Ownership Profile	Classification
EME	Local service provider. Owner is an integrated energy company by acquisition, utilising utility approach to compete	Variant 1/ Variant 5A	Owner	Integrating Investment	Owner PowerGen would appear to be an Analyzer
Eastern	Integrated energy company by acquisition, utilising utility approach to compete	Variant 3C/ Variant 5B	External Factors/ Resources/ Leadership/ Owner	'Hands on' strategic asset seeking investment	Analyzer
London	Integrated energy company by acquisition, utilising utility approach to compete	Variant 3C/ Variant 5B	External Factors/ Resources/ Leadership/ Owner	'Hands on' strategic asset seeking investment	Analyzer
Manweb	Local service provider. Owner is an integrated energy company by acquisition, utilising utility approach to compete	Variant 1/ Variant 5	Owner	Integrating Investment	Owner ScottishPower would appear to be an Analyzer
Midlands	Local service provider.	Variant 1/ N/A	Regulator	'Arms Length' strategic asset seeking investment	Defender
Norweb	Local service provider.	Variant 1/ N/A	Regulator	Multi-Utility	Defender
Northern	Integrated energy company by organic growth, utilising utility approach to compete	Variant 2/ Variant 5A	External Factors/ Resources/ Leadership/ Owner	'Hands on' strategic asset seeking investment	Analyzer
Seeboard	Integrated energy company by organic growth, utilising utility approach to compete	Variant 1/ Variant 5A	External Factors/ Resources/ Leadership/ Owner/ Regulator	'Arms Length' strategic asset seeking investment	Analyzer
Southern	Integrated energy company by acquisition, utilising utility approach to compete	Variant 3C/ Variant 5B	External Factors/ Resources/ Leadership/ Owner	Integrating Investment	Analyzer
SWALEC	No longer in existence	N/A	Owner	N/A	N/A

SWEB	Local service provider.	Variant 2B/ N/A	Regulator	' A r m s L e n g t h ' s t r a t e g i c a s s e t s e e k i n g i n v e s t m e n t	Defender
Yorkshire	Integrated energy company by organic growth, utilising utility approach to compete	Variant 2/ variant 5A	External Factors/ Resources/ Leadership/ Regulator	' A r m s L e n g t h ' s t r a t e g i c a s s e t s e e k i n g i n v e s t m e n t	Analyzer

The existence of archetypical REC configurations and strategies, and their evaluation, and validation or falsification now becomes part of the remaining objectives of this chapter. Part of this process involves evaluating the applicability of the use of the Miles and Snow approach for the purposes of classification. Does the model, as it currently exists, enable a full understanding of the dynamics of the relationship between the companies within the industry? How, for example, does the model explain the lack of a prospector organisation from the analysis presented in Table 8.10? The validity of the analysis presented above inevitably needs further examination. All of the concepts discussed in this section will be focussed upon in the field cases.

An interesting aspect of the debate about classification was raised in Section 2.5.6.2.6, and concerns Miles and Snow's view that different configurations of company types will be evident within industries at different stages of industry development. They estimated, for example, that embryonic industries would have more prospectors, mature industries more defenders, and transition industries would witness a mixture. This inevitably creates the possibility of changes in the classification applied to certain companies, as they adapt to accommodate the changes to their industry. Of course, it may be noted that some companies may not change, despite the dominant trends within the industry.

The ESI presents some evidence that classifications have changed over the ten years of the study, but also question's Miles and Snow's assumptions about the configurations that will be evident at particular times. This suggests to the author that once again a theory has been developed in the literature that is not generally applicable, as it does not account for the special conditions of a liberalising but still regulated former state owned enterprises. Details of the changes witnessed are shown in Table 8.11.

The overall pattern presented by the ESI, in relation to Miles and Snow's comments, would seem almost to be the inverse of their expectations. Firstly, in the industry's

embryonic period, there are more cautious companies than adventurous companies. This perhaps indicates that there is a difference between a 'naturally occurring' new industry and one where 'forced competition' has been witnessed. The mid-period matches Miles and Snow's transition phase, with a variety of types observable, while the current stage witnesses more adventurous types of organisation throughout the industry. It would appear, therefore, that opportunity for expansive approaches in an industry of this type comes after the development of experience and understanding, rather than from innovation at the outset. It also comes later, rather than sooner.

Table 8.11: Classifications 1990-2000

Company	1990	1994	2000
East Midlands	Elements of Defender/ Analyzer/ Prospector all evident	Turnaround to reestablish itself as a Defender or Analyzer	Owner PowerGen would appear to be an Analyzer
Eastern Electricity	Elements of Defender/ Analyzer both evident	Elements of Defender and Analyzer evident	Analyzer
London Electricity	Defender	Defender	Analyzer
Manweb	Defender	Defender	Owner ScottishPower would appear to be an Analyzer
Midlands Electricity	Elements of Defender/ Analyzer both evident	Defender/Analyzer	Defender
Norweb	Defender	Analyzer	Defender
Northern	Elements of Defender/ Analyzer both evident	Defender/Analyzer	Analyzer
Seeboard	Defender	Defender/Analyzer	Analyzer
Southern Electric	Defender	Defender/Analyzer	Analyzer
SWALEC	Defender	Defender/Analyzer	N/A
SWEB	Elements of Defender/ Analyzer both evident	Defender/Analyzer	Defender
Yorkshire Electricity	Elements of Defender/ Analyzer/ Prospector all evident	Defender/ Analyzer	Analyzer

8.4 Other Key Issues

A variety of other key issues have emerged during this analysis, which help to develop further understanding of the processes under examination. These issues have not necessarily been the core focus of attention, but a brief review of their features broadens the analysis and the understanding of the change that is being witnessed. The first of these areas is the debate surrounding the differing concepts of strategy in relation to the firm.

8.4.1 Competitive Forces verses the Resource Based View

Throughout the case studies presented in Chapter's Five to Seven, a picture has emerged of a variety of different positions being adopted by the organisations under study in relation to this debate. Some of the companies have, in their concern for backward integration for example, shown a clear concern for addressing the competitive forces at play within the industry, and a desire to orient themselves competitively towards their industry. Others of the RECs have displayed a much clearer concern that they amply deploy and exploit to the full their existing organisational resources and capabilities. An example of the former is perhaps Midlands, which engaged in extensive backward integration as a means of improving its ability to compete in its supply business. An example of the latter is probably Eastern, as the following case study in Chapter Nine will demonstrate. The study also shows that in so far as the different drivers are concerned, the relationship described by the model presented at Figure 2.5 is increasingly evident within the industry, as remaining companies attempt to develop the appropriate congruence between each of the competing factors driving organisational strategy. This issue will be returned to following the completion of the case study chapters.

8.4.2 Strategy Making At Different Levels

The analysis to date clearly shows a variety of different approaches to the question of the location of strategic decision making among the sample. Very clearly, at the beginning of the period, most of the companies operated functional structures, or close variants of functional structures, which saw a 'command and control' style leadership, as will be discussed. Consequently, the 'strategy as plan' approach was much in evidence, with corporate level strategy establishing not only the boundaries but also the detail of decision making at SBU levels. However, as the period has moved forward, increasingly head offices appear to be adopting the 'strategy as pattern' concept, and devolving decision making to the business and operational levels of organisations. This behaviour is perhaps not unsurprising, as most concepts of organisational development argue that decision making close to the functional activities makes sense from the standpoint of the flexibility and suitability of outcomes. Within the ESI, it should also be noted, the forced separation of the two core businesses: distribution and supply, has created the need for organisations to develop two quite distinct skill sets, which emphasises network management skills in one, and a more entrepreneurial approach in the other. Clearly, while a command and control culture could function in the more measured, and stable distribution business, it would appear to be a clear disadvantage in the more fast paced, entrepreneurial supply business.

8.4.3 Leadership

Following very closely on from the preceding debate, is that of leadership. Once again, there are more examples of transactional leadership among the companies in the early stage, and an increasingly transformational approach developing later. However, it should be noted that the recent development of companies focussed solely upon distribution activities has seen revisitation of more transactional leadership approaches. Once again, the increased entrepreneurial nature of the industry has encouraged a more delegatory attitude among leaders, creating transformational leadership. Clearly, the concepts in 8.4.3 and 8.4.4 are closely interlinked. The delay in the development of transformational leadership can be attributed to the period of caution encountered at the beginning of the period that was referred to in Section 8.3.

Debate on the issue of dominant coalitions will of necessity have to wait until the in-depth case study chapters. While it has proved possible to identify, for example, that Eastern's dominant coalition was principally comprised of its CEO and its finance director, this was an exception case, resulting from the viability of these senior managers and the attention they drew to them. Such a situation was not always the case among the RECs. What is interesting to note here is that, if we again consider Eastern's example, that Miles and Snow's analysis appears to be erroneous. The involvement of the finance director in a dominant coalition was supposed to indicate a defender organisation, rather than the analyzer/market leader company identified in Table 8.10. Clearly, this is a simplified overview of both their analysis and the findings of the research, suggesting that further assessment is necessary to establish an authoritative view of this issue.

What it may be possible to discuss at this stage is the changing nature of main board composition among the RECs, which may be indicative of the existence of the two key archetypes identified in Section 8.3. The two archetypes recognise a differing perspective on the pursuit of viable business opportunity within the industry: one view, the integrated energy company view, holds that a wide scope may be adopted while the other, the local distribution company view, holds that a narrow view may be adopted. The current composition of main boards inevitably reflects this divergence, as the former companies; operating in more areas, will need larger boards in order to manage their more varied activities. There are inevitably differences between companies who have adopted narrower (such as SWEB), or wider focusses (such as Northern) within the industry, and other RECs (such as Seeboard) who have large contingents drawn from their owners on the main board. However, if the composition of, and roles held among, company main boards are any indication the research may point to more fundamental differences among the RECs. For example a company like Eastern; whose main board composition, as

demonstrated at Section 7.1.2, is virtually indistinguishable from the main boards of more traditional organisations, appears to share little in common with a company like Yorkshire; which as Section 5.4.2 demonstrates possesses a board that remains very clearly that of a utility organisation. This may suggest that Eastern has moved away from the traditional concept of an utility company, while others within the industry have not done so. The position of Eastern *vis-a-vis* its contemporaries within the industry, will be explored in Chapter Nine.

8.4.4 The Impact of Structure

The same points made in 8.4.3 and 8.4.4 have a clear association with the observations to be made in relation to structure. A more entrepreneurial organisation, featuring greater delegation in decision making and hence witnessing decisions being taken lower down the organisation, will almost inevitably seek a more divisional structure within which to pursue these objectives. The sample has witnessed the increasing proliferation of divisional, and even holding company structures over the period, as the need to manage differing skills in relation to different market demands has become increasingly clear. While some companies had anticipated this new feature of the operating environment relatively early, some took time to develop an awareness of this need. For example, SWALEC did not move to a divisional structure until 1994. However, the divisional structure is only a viable option for organisations which remain involved in a variety of segments within the industry. For companies like WPD and Midlands, which are now only operating in the distribution segment, the need for elaborate divisional structures has diminished as the focus returns to functional structures, with transactional leaderships, and a 'strategy as plan' approach to decision making.

8.5 Concluding Remarks

The conclusion of this chapter marks the end of the reporting of the preliminary stage of the research. It is necessary, at this time, to reflect upon what has been observed, and how these observations impact upon: the remainder of this research; the objectives of the research; and consequently upon the wider management literature in general. These issues are addressed with reference to the four key objectives set out in Chapter One.

8.4.1 Objective One: Observations and Future Aims

To date, this research has established an accurate and reliable picture of the content of the strategy of the twelve companies in the sample since privatisation. This has been achieved by the use of a form of content analysis of textual material, which has been corroborated by reference to (i) differing sources of data and (ii) different methods of analysis, to ensure

its reliability. Consequently, a detailed knowledge of the nature of strategy within the sample has been obtained, and the following conclusions drawn:

- ▶ that following initially divergent impulses, the industry has settled upon a very few key strategic approaches which have proven to be viable within the circumstances of the industry:
 - a) companies inevitably will pursue a concentrated growth approach in the regulated portion of their business, and consideration of competitive business strategy does not appear to be relevant. Instead, they must pursue a strict cost control regime in a heavily prescriptive strategic environment;
 - b) companies tend to pursue a more expansive combined strategy in the unregulated, but related portion of their business. These approaches include market and product development, vertical and increasingly horizontal integration, and the use of joint ventures and consortia to enhance the effectiveness of their market development. The environment dictates that segmented utility or segmented utility focus strategies are the only viable business level strategies that can be deployed. Non-regulated activities tend to witness a more emergent strategy process than their regulated counterpart;
- ▶ that particular formulations of strategy are becoming evident, which reflect the reality of the sort of archetypical strategies the companies are pursuing, as discussed above. These combinations reveal that there are three possible and distinct strategic approaches evident within the industry:
 - a) the local service provider;
 - b) the integrated energy company by organic growth; and
 - c) the integrated energy company by acquisition.

This reflects the observable phenomenon that some companies are exiting the competitive portions of the industry while others are seeking to establish a dominant market position in industries like supply or generation; a process that is being encouraged by the behaviour of the local service providers in exiting the competitive portions of the industry;

- ▶ that combinations of grand strategy match the patterns of strategic involvement identified here, and once again present an industry that is relatively homogeneous in approach. However, it is necessary to note that this homogeneity is evident in generic approaches, and not necessarily in the detail behind those generic approaches;
- ▶ that there is strong circumstantial evidence to suggest that the principal developments in terms of strategic content, and strategic combinations have

followed the expiration of the golden shares, and hence is linked to the new perspectives brought by the new owners entering the industry; and

- ▶ arguably, therefore, there is greater commonality among the remaining companies within the industry than at any time since privatisation, which may be interpreted as an indication that the industry is approaching maturity.

8.4.2 Objective Two: Observations and Future Aims

To date, this research has only developed a series of broad concepts with respect to strategic drivers, requiring the application of further attention during the field work stage. These concepts have developed as a consequence of an interpretation of the content analysis, and other textual analysis undertaken in support of Objective One. These tentative conclusions are as follows:

- ▶ that the influence exerted by an industry regulator on company strategy will be in direct proportion to the share and importance that regulated earnings play in an organisation's overall profitability: rising as that proportion rises, and falling as it falls;
- ▶ that other influences like the market and competitor behaviour (external factors), resources (internal factors) and leadership need to be in alignment, and to be congruent for an organisation to make a success of a competitive, largely non-regulated approach; but that
- ▶ among companies attempting such an approach the relative importance of these three factors will vary, with each displaying a different hierarchy of importance: some being more market led, some concentrating upon superior resources, some being driven by the dominant coalition;
- ▶ that as the industry has matured, there is some evidence of companies adopting a resource based view, and focussing upon particular capabilities to obtain competitive advantage;
- ▶ that ownership has become a key factor in driving strategy, if not the key factor in some cases; and
- ▶ that there were a variety of different forms of ownership evident within the industry, including: strategic asset seeking investment, which may either be 'arms length' or 'hands on'; integrating investment; and multi-utility investment, suggesting different forms of motivation underlying the impact ownership has upon strategy.

However, many of the above observations have principally been inferred from the patterns of behaviour observed among the companies. It would be difficult to argue that the confidence placed in each would be high, unless further confirmatory research be

conducted. This confirmatory research is therefore identified as a principal objective of the forthcoming field research.

8.4.3 Objective Three: Observations and Future Aims

This chapter saw the first consideration of the question of classification of the observable behaviour against an established management model: the Miles and Snow typology (1978). From the data collected and analysed in relation to Objectives One and Two, the following observations were made:

- ▶ firstly, that two broad archetypes have emerged from the industry following the first ten years after privatisation. These were (a) the integrated energy company; and (b) the local service provider;
- ▶ secondly, that an initial analysis of the various characteristics of the sample allowed for a tentative classification to be undertaken. However, this classification was identified as being less than satisfactory, as it did not provide an explanation of some of the key elements of the Miles and Snow model. Principal among these was a need to identify the source of innovation within the industry, as this was missing from the initial classification of company types.

Within the case studies, therefore, the interrelationship of the companies within the ESI requires further attention to determine (a) where the missing functions of the industry are to be located, and (b) whether the model itself offered a realistic explanation of what has been observed within the industry, or whether, following Supporting Objective One, there was a need for some form of amendment to be proposed.

8.4.4 Objective Four: Observations and Aims

This Chapter has taken the two tentative core propositions identified in Section 1.3 and elaborated upon them to form the ten working propositions presented in Section 8.1.3 and 8.2.4. Both sets of propositions will receive scrutiny in Chapter's Nine to Eleven, and will be further evaluated in Chapter Twelve. The author has, at this preliminary stage of the research, greater confidence in the accuracy of P1 to P5, reflecting the author's overall confidence in the accuracy of the analysis presented in Section 8.1 with respect to strategic content and combinations. Less confidence exists in P6 to P10, reflecting the difficulty noted here in obtaining a clear understanding of the respective impacts of the drivers of strategy from an analysis based upon textual analysis.

9.0 Introduction

This chapter will not feature an extensive biographical section on Eastern, as that function has been performed in the separate case study of the Company presented in Section 7.1. That case study presented:

- The analysis and assessment of strategy in relation to Eastern Group, in Chapter's Seven and Eight, was derived from information provided by existing published sources. The extended analysis and verification of the observations and propositions to be undertaken within this chapter have been derived from a series of in-depth interviews with managers both inside Eastern Group, and within the wider energy industry. A list of all of the primary source interviews conducted in conjunction with this research was presented in Section 1.4. From this list the key interviews utilised in this chapter were:

- 408-

- ▶ UK004: for Eastern Group, April 1998;
- ▶ UK005: for Eastern Group, June 1998; and
- ▶ UK006: for Eastern Power and Energy Trading, June 1998.

Material provided by each manager will be referenced accordingly in the chapter references. The transcripts of each interview will be included in the Appendices to this thesis. The chapter also utilises secondary source material as necessary, as well as internal company documents, and will be referenced accordingly. As a condition for the granting of these interviews, personal confidentiality was assured. Consequently, reference will only be made to the job title of each manager quoted.

9.1 Summary of Observations of Eastern Group

As noted in Section 9.0, the first section of this chapter reviews the observations made of Eastern Group in respect of:

- ▶ the narrative presented in Section 7.1 of Chapter Seven; and
- ▶ its analysis, and resulting conclusions with respect to the Company presented in the various reporting sections of Chapter Eight.

This brief 're-telling' of Eastern's story is necessary for two main reasons: firstly, it provides the context for the following discussion and analysis; and secondly, because the conclusions reached at the end of this initial investigation provide the first 'point' of the triangulation process that this section is indented to perform.

9.1.1 Strategy within Eastern Group

Eastern was initially an organisation which was highly prescriptive, centrally managed, and aiming to achieve a fairly narrowly conceived set of operational objectives. These objectives were based upon organisational efficiency and cost effectiveness in their core distribution business, and a progressive market development approach in the secondary supply business. The Company's other businesses: appliance retail and contracting, were also expected to be run on the basis of organisational efficiency and cost effectiveness and to make a small but positive contribution to the Group's operational profitability. Eastern's continuing businesses, therefore, all subscribed to a similar initially cautious approach, but with the hope and expectation that its heightened capabilities in marketing and service quality would bring growth and enhanced profitability, in supply in particular. The Company also sought to engage in concentric diversification through its planned investment in generation. This investment was aimed at the dual objectives of profit

generation and also of supporting its supply activity, by assuring a guaranteed source of wholesale energy at a lower price than that offered by the national generators.

Initially, therefore, the strategy was cautious, rationalised, and based upon concentrated growth. Eastern, despite its size and reputation, was not at this early stage one of the more adventurous RECs. This changed in 1993-94 when the Company was subject to a strategic turnaround. This turnaround saw the introduction of a new organisational and competitive philosophy which was in turn more emergent and entrepreneurial. The new aim of the organisation's strategy was to seek opportunity wherever it existed, providing it was profitable and linked into the existing capabilities and skills of the organisation. As was noted earlier, the Company believed that it possessed enhanced capabilities, in particular in marketing and customer service. The re-orienting of the organisation in 1993-94 suggests that it was seeking to maximise the potential of these superior resources, in order to seek superior organisational performance. This suggests the development of a more resource based outlook (Grant, 1991) on the part of Eastern, possibly seeking to enhance the more market focussed approach that the Company had adopted up to that point. This identification and exploitation of resources, competencies and capabilities was to be a recurring factor in Eastern's approach.

The impact of this change saw the Company begin to more aggressively pursue business opportunity. In addition, greater responsibility was passed to managers closer to the actual operations. The function of the corporate centre was therefore changed from its prescriptive leading role, to a guiding role which empowered the entrepreneurial spirit of both business and functional managers. This change in emphasis brought some change even in the core distribution business, although the scope for change here was limited by the regulated nature of the industry. However, it brought the most change in non-regulated activities. The supply businesses, electricity and gas, were encouraged to become much more aggressive in pursuit of market development opportunities, and began to utilise a full range of product development. The objective was to create a mass customer base through organic growth, utilising the Company's resource base of established marketing skills, relative financial muscle, and the innovative and entrepreneurial approach required of business and functional managers. Latterly, the realities of the industry, and in particular the difficulty of achieving fast growth through organic means, has led to the Company seeking growth by acquisition, in particular the takeover of the Norweb Energi supply business. The Company's generation business also set about building critical mass and market power through an acquisition approach which began in earnest following the takeover of Eastern by Hanson, adding further key capabilities to the Company's existing resource portfolio. This process has continued

under new owners TXU. Other businesses were run for profit, and if they failed to match the necessary levels of profitability, were divested.

Ultimately, this freedom to compete has led to the Company changing its operational emphasis. The organisational logic followed this rationale:

- ▶ the focus upon building a strong supply business further justified the development of market power in generation, to provide the certainty of cheaper prices to the supply business and reduce risk;
- ▶ market power in generation came from increasing the generation portfolio, but also achieving backward integration into down-stream gas supplies;
- ▶ as the Company was now involved in both gas wholesale and retail, and electricity wholesale and retail, and was looking to minimise risk in all of these activities, this created the need to manage risk more effectively, leading to the development of an arbitrage capability to maximise the profit earning capability of the Company at all stages in the energy chain; which in turn
- ▶ led to the development of a capability in risk management which the Company now offers as a value adding service on a commercial basis.

All of these developments combined to create an organisation which is now focussed upon the management of risk, through its energy trading business which drives its supply and generation businesses with the aim of maximising organisational profit. The Company's distribution business operates separately from this new focus, and continues to pursue the general 'operating rules' for its sector, by seeking to manage cost ever more effectively. This has lead it to its recent decision to seek to merge its business with that of London Electricity, forming 24seven. Clearly, Eastern looks like an organisation which approaches the question of strategy from a resource based, and largely emergent prospective. The growth of the Company has been based upon the maximisation of the potential of its resources, or the seeking of enhanced resources through the managed takeovers by Hanson and TXU. The risk management driven strategy has emerged from the entrepreneurial outlook the Company adopted in 1994, but despite having established this part of their business as the key driver the approach still appears to be fundamentally emergent although it is probably more focussed than before. The strategy of the distribution business appears to be largely prescribed.

9.1.2 Influences on Strategy within Eastern Group

Eastern began its independent life as one of the two largest RECs, and was consequently one of the companies with the greatest level of expectation placed upon it by external observers. At the beginning, however, the managers of the Company chose to pursue

what they felt was the appropriate strategy for Eastern, resulting in the more cautious beginning described above. The key early influences were those of the existing managers, and of the Regulator. The one area in which the early strategy departed from the norm was that of generation. However, this was also arguably not a radical step. The decision to invest in generation seems to have been taken as a result of an underlying trend among the RECs as a whole. This trend suggested that generation was a natural business for RECs to enter as it offered them a chance of obtaining a cheaper source of energy, and through the use of joint ventures, the whole exercise was relatively risk free. This was arguably therefore not the conscious long-term strategic decision it would later appear to be.

The change that occurred in 1993-94 was a product of uncertainty with respect to the performance of the Company. Eastern had recognised a need for improvement in certain vital areas, as the then MD Devaney noted in 1993: "This was a year of major change. Our twin priorities were to reduce substantially the cost base of the business and to achieve a step change in service quality" (Eastern Electricity, 1993, p.7). This suggests that pressure for change had originated from the organisation's shareholders in recognition that the Company was not making the most of its opportunities. The reaction from the City was that Eastern had been under performing (Pearson, 1991a). This judgement was based upon the twin influences of the initial performance expectations it was failing to meet and the performance of other RECs since privatisation, and it forced change, reflected in Devaney's comments. The focus upon the cost base was aimed to improve its performance in distribution, and upon its service quality to aid its performance in supply.

However, following this exercise of external influence, the evidence suggests that the key influence on strategy within the Company once again became personal. In particular, the influence of John Devaney and the new Finance Director Anstee have been identified as being particularly important. Poor management had been highlighted as a contributory factor in the Company's earlier below par performance (Sychrava, 1992f). It is noticeable that concerns of this kind were reduced following changes in senior management. The earlier analysis continued by identifying Devaney as the key influence on strategy through until the takeover of the Company by Texas Utilities in 1998. Consequently, the view emerged that leadership had been more important than other influences in the case of Eastern Group. This, however, may have changed since the takeover by TXU, who may now be leading the strategic direction of the Company rather more than the current group of managers.

9.1.3 Observations Drawn

While Section's 9.1.1 and 9.1.2 have alluded to the various conclusions drawn about the characteristics of Eastern Group over the course of the analysis conducted in Chapter's Seven and Eight, it is necessary to briefly reiterate them here. Eastern, as a Company, was:

- ▶ initially pursuing an approach focussed upon concentrated growth across all of its activities, but following a turnaround in 1993-94, became much more aggressive and expansionary in its outlook, pursuing market development in both supply and generation through a variety of different grand strategy combinations;
- ▶ following the turnaround, more decentralised in terms of decision making with the leaders providing guidance and inspiration: strategy as pattern, but leaving tactics to business and functional managers. The Company operates a divisional structure, but the integration of energy trading, supply and generation means that there is a much greater degree of consolidation than in many of its competitors. The Company may be establishing a new organisational archetype in advance of the rest of the industry;
- ▶ adopting an initially prescriptive, but latterly emergent, approach to strategy;
- ▶ adopting an initial strategic focus upon its industry, but has latterly become much more focussed upon its resource base;
- ▶ initially subject to key strategic influence from its leadership and the regulator, but its perceived under performance saw that influence switch to external forces. However, following the success of the turnaround, leadership again became the key influence driving a new strategy, with internal resource factors acting as an enabler; and
- ▶ finally identified as an analyzer, although there must be some concern that this description does not fully describe the key leadership role the Company plays within the industry.

The above conclusions were based upon a three phased analysis: factual data from published sources; factual data from company sources; and opinion data from published sources. In so doing, the author argues that the process of triangulation discussed in Section 3.2.2 has been fulfilled, and that the author possesses a high degree of confidence in the findings reported above.

9.2 Testing Propositions: Strategic Content and Combinations

In pursuit of a resolution of Objective One of this research, Section 8.1.3 established a set of five propositions which sought to identify from the preliminary stage of the research

UK004, 1998). Under regulation, he argued, there was not any possibility of a cost reduction programme harming service quality, as the levels of service quality were ring fenced by the regulator.

This describes the practical realities of the strategic choice facing companies in distribution. The price cap means little or no growth opportunity is available, so costs must be controlled: *ie* assets must be worked harder, while performance is maintained. The 's response principally concerned the reduction of overheads and controllable costs, which could be interpreted as manpower reductions, and this certainly occurred as referred to in Section 7.1. However, the Company also evidenced a different aspect of the concentrated growth approach, in relation to the improvement in performance of the business. In an interview with the , the activities of the Company in improving the capability of its staff were discussed as the following statement explores: "5000 people have left the Company, and been replaced by 2000 new ones, with more appropriate skills....a higher calibre person to take on wider roles. In the past, if you had a certain job done in the house you could have visits from about five people...now you have one visit with one person doing everything that was required. So it has a lot to do with empowerment of staff, and widening skills. That is the way we have tried to develop" (Eastern Group, UK005, 1998). This example applies to both the distribution and supplies activities of the Company.

Therefore, Proposition 1 is supported primarily because the companies have little scope for following any other approach. The key features of the concentrated growth approach are cost reduction, but also service quality improvement as this has been found to aid cost management measures at the same time as providing an enhanced service. The Company has, as discussed in Section 7.1, recently merged its distribution business with that of London. This indicates an extended concentrated growth approach widening the scope of cost reduction/service enhancement across two organisations and seeking synergy in the face of ever more squeezed operating profits.

There must, however, be a degree of concern about the use of concepts like those used here in relation to the activities of a regulated industry. Can it be appropriate, for example, to make reference to a concentrated growth approach in an industry that does not grow? There is clearly an issue of the correct terminology to be addressed here, in distinguishing between regulated and non-regulated industries. It may be appropriate to describe the behaviour of regulated businesses as demonstrating behaviour which shares similar characteristics with a concentrated growth approach, albeit within a regulated, non-competitive arena. Examples of how this assessment affects the ongoing analysis will

be referred to throughout this and the following two chapters, and conclusions drawn in Chapter Twelve.

9.2.2 Legitimising Proposition 2

Proposition P2 stated that:

“companies will seek to employ approaches to develop critical mass in most if not all of their continuing un-regulated businesses”

The view developed in Chapter's Seven and Eight in relation to Eastern, and indeed their competitors in the supply industry, was that companies needed to develop a critical mass to remain viable in electricity supply. The general principles of this competitive aspect of the industry have been commented upon in a publication by the author (Ghobadian and Viney, 2000). The key views in support of this proposition have been derived from another of the field study chapters, Chapter Eleven, but the evidence drawn from the interviews with Eastern managers are equally compelling. Speaking in 1995 the then commented that in his opinion, and following the advent of competition in supply, there would probably be only four integrated utilities in England and Wales, and two in Scotland, in the long run (Eastern Group, UK002, 1995b). This clearly suggests that (a) companies will be looking to build critical mass and (b) that other companies will see the logic of retreating from the industry as economic reality hits home. This viewpoint therefore illustrates a dominant industry view that critical mass is a necessity for continued operations in competitive businesses.

There is inevitably a logical side to this proposition. Supply, as discussed in Chapter Four, is a high turn over but low margin business. Therefore to make a meaningful contribution to Group profitability, critical mass is required to reduce the proportionate impact of overheads, and by spreading this aspect of cost, to improve the margin. Other evidence from interviewees supports the need for critical mass, and also discuss the process. The

said “I think that the strategy was to double our customer base in the UK. You can't double your customer base within your franchise area. You can double your customer base relatively easily nationally...so we grew to be an organisation that services 6 million customers from one that serviced 3 million customers originally” (Eastern Group, UK005, 1998) with greater expansion intended into Europe. The then noted the importance of gas to this strategy, when she commented that “we now have the largest independent gas business signing up more customers per week than anyone else” (Eastern Group, UK003, 1998).

However, the extent to which supply was a core activity to Eastern was and indeed remains uncertain, as discussed by the then . She notes that it is still very early in the day as far as domestic competition is concerned, and there is still uncertainty about the potential for shake out, perhaps not in terms of 'if' but rather in terms of 'who'. She notes the debate within the Company at the time of the interview (1998): "for us, the issue is what value does a retail customer base have within an integrated energy portfolio? Do we need to have individual customers. Or do we simply have a large supply contract for one of the other RECs who is happy to do the customer service thing? One of the most interesting things....is the notion that we might actually sell out of domestic electricity....its only one rather small part of what we do. I could very easily see, say after 2000, an Eastern that had sold its networks business, or an Eastern that had sold, or sub-contracted, its supply business. You don't necessarily need to do it yourself" (Eastern Group, UK004, 1998). This suggests the potential for the application of a dynamic network concept, as discussed in Section 2.4.2 (Miles and Snow, 1992). The subsequent purchase of the Norweb Energi company would suggest that the move towards critical mass has continued within Eastern, and that this philosophical debate has been resolved, at least for the moment.

Therefore, Proposition 2 is supported primarily because of the prevailing economics of the industry. Consumer's are fickle, and demand high quality and low cost or will move away. The enterprise carries certain cost overheads which are constant, and profitability per customer is low. Consequently, if you are going to stay within this sector of the industry, you must have critical mass (Ghobadian and Viney, 2000) to overcome constant flux in demand and to spread the cost of overheads. However, it is clear that the key word in Proposition 2 is 'continuing', and there will clearly be further shakeout within the industry in the coming years. As referred to earlier, this issue is described in greater detail in relation to the case presented in Chapter Eleven.

9.2.3 Legitimising Proposition 3

Proposition P3 stated that:

"the approaches mentioned in P2 will of necessity involve a combined price and non-price generic approach, so backing the arguments of a variety of authors against the conclusions of Porter (1980)"

The view developed in Chapter's Seven and Eight in relation to Eastern, and once again in relation to all of their competitors in the supply industry, was that companies needed to develop an utility approach, based upon both price and non-price competitive weapons, to remain viable within the competitive portions of the industry. In addition, this utility

approach ought to be segmented, to reflect the different categories and locations of customers that a company is trying to reach: *ie* both domestic and commercial customers, across different parts of the country. The Company may therefore require a segmented utility focus approach if it needed to target particular clients or client groups.

Support for this proposition was presented in Section 7.1, where Eastern's efforts in particular to present commercial customers with an attractive utility package were seen to be considerable. The Manager of Business Process Redesign describes the rationale underpinning this approach: "We have looked at all of our business processes from the customers point of view, baring in mind that we were becoming a competitive organisation. So we asked the customer what he wants: he wants 100% reliability of electricity supply, he doesn't want to pay too much, and when it does go off he wants it restored very quickly, and he also wants to be told when it is going back on" (Eastern Group, UK004, 1998). Once again, therefore, competitive reality has forced the hand of the Company. If it wishes to stay in supply, which the purchase of Norweb Energi would suggest it does, it must match or better the price its competitors charge for supply - the order qualifier - and offer enhanced service - the order winner. In domestic supply, enhanced service takes the form of service reliability, prompt and accurate billing, a variety of payment and tariff options including green tariffs, dual fuel offerings, affinity programmes (Eastern has an affinity programme with Barclaycard), prompt and efficient customer service representatives and field operatives, and all of the above offered to a consistently high quality (Eastern Group, UK004, 1998). In commercial supply, this enhanced service takes the form of the sort of consultancy services identified in Section 7.1, as the following extract from the Company's 1993 annual report, in relation to its approach to the opening of the 100kW market, shows:

"We continued to target sales activity to business and industry through key account management, providing customers with a single named point of contact within the Company. We also continued to promote the more efficient use of energy and added value and environmental advantages of electricity by making our research facilities and technical expertise available to our customers. An excellent example is a process development project for the Ford Motor Company at Dagenham. The project demonstrated the benefits of electric infra-red preheating in parallel with conventional convective heat transfer, to accelerate the curing of high specification automotive paint systems resulting in increases of up to 30% in throughput. To help major business customers obtain the best value, we launched a unique computer software package called Appraise, which allows buyers to compare competitive bids for the supply of electricity on a like for like basis and overcomes the problems caused by supplier's bids which vary

in structure and price" (Managing Director's Review, Eastern Electricity 1993).

The product offering made by Eastern has continued to evolve, as the competitive market developed. The following year's annual report drew attention to other value adding aspects of Eastern's service, such as "offering billing by electronic data interchange, half-hourly monitoring, computer based appraisal systems and other energy management tools" (Chief Executive's Review, Eastern Electricity, 1994, p.9). As a consequence of the Company's approach, it increased its share of the 100kW market by 30% in its first competitive year, a figure which included retaining 90% of its existing customers. Among the new contracts achieved in this first year were agreements to supply 500 McDonald's restaurants, 200 Tesco stores, 300 Gateway stores, 47 MFI stores, and 50 branches of the National Westminster Bank (Eastern Electricity, 1994, p.9). By 1995, the company supplied 7200 sites in the competitive market, 2900 of which were outside of its own region (Eastern Group, 1995a, p.8).

Consequently Proposition 3 is supported primarily because of the prevailing economic conditions within the industry. Competition has meant that customers have a choice, and to retain their custom the companies remaining within the industry are offering competitive prices and enhanced services: a utility approach which runs contrary to Porter's views on the exclusivity of generic strategies. However having argued thus, it is necessary to inject a note of caution: that the supply industry is still relatively immature as a market, and as noted there is an expectation that the present shakeout will continue. Whether this proposition continues to be valid when the industry reaches maturity is open to debate, as the author has noted in a forthcoming paper (James *et al*, 2001).

9.2.4 Legitimising Proposition 4

Proposition P4 stated that:

“‘new core’ businesses will evolve incrementally as companies take on the responsibility for identifying viable concentric diversification”

The ‘new core’ businesses identified in this research are those of generation and gas. The earlier analysis of Eastern suggested that the Company identified both as being related diversifications that would enhance its business prospects and were then pursued with great vigour. The development of energy trading as the new core of the Company follows this pattern, but arguably defies the concept of the process as being incremental. The view of Eastern towards these ‘new core’ activities was explained by the then in recounting how Eastern began to develop its generation capability. His predecessor, he argued, had intuitively understood the need for generation although this intuition was

based on his (*the predecessor's*) background in the CEGB. The noted the importance of this fact: that industry power under the old system had rested in generation, and that senior managers used to that environment inevitably sought generation as a means of building the power of the new companies (Eastern Group, UK002, 1995b). The strategic side of the decision had therefore emerged from this initial decision.

The stated that Eastern's strategy, in 1995, was clearly based upon the achievement of vertical integration and hence upon acquiring large scale assets: power stations and gas reserves, to achieve this objective (Eastern Group, UK002, 1995b). Vertical integration, he argued, was a necessity as the profitability of the industry resided at different locations within the supply chain at different times, and was thus very similar to the situation in the petroleum industry. Interviewees suggested that much of the initial conception of a vertically integrated approach came from early work conducted for Eastern by Bain and Company (Eastern Group, UK004, 1998), which justified the gut feeling of many within the Company who had experience of the industry. However, there is evidence that the consultants influenced the decision to enter gas: "the establishment of a gas business started off at about the same time as the generation business. I think the decision to do that was based more on the Bain thing than the experience of the Company. The alignment of the electricity and gas supply chain is a more recent phenomena" (Eastern Group, UK004, 1998).

Gas therefore helps to validate the proposition. It was initially undertaken, as the above statement shows, because the Company saw the potential to generate income from utilisation of a resource it held: the management of customer billing operations for a utility service. Incrementally, this involvement was grown as gas became more important in its generation activity, but more importantly the gas industry was liberalised. The move towards driving the Company primarily from its energy trading activity was based upon the direction of thinking summarised as "why the hell should we be paying people margins for the supply of gas when we can go and buy gas ourselves" (Eastern Group, UK004, 1998). In the early days of its gas generation business Eastern "was a complete price taker" (Eastern Group, UK004, 1998). By incrementally improving and enhancing its involvement in gas, the Company strengthened its position, and achieved the vertical integration it was seeking.

Therefore, Proposition 4 is supported because within the industry the scope for change is on the one hand limited, but upon the other hand necessary. As was noted in relation to Proposition 1, the profits of regulated activities will be continually squeezed. All of the companies, even Manweb, recognised a need for non-regulated income streams.

However, the sort of areas that companies of this type consider to be 'core' to their business do not become so overnight, especially as within a regulated, or partially regulated, environment the effect of that regulation will be considerable: a *defacto* barrier to entry in addition to those erected by potential competitors. The evidence gathered here also suggests that the experimental nature of the privatisation meant that caution was important. Arguably, therefore, once the example has been set: either within an industry by a company prospecting or to an industry by the example of the UK experience, this proposition may be less valid.

9.2.5 Legitimising Proposition 5

Proposition P5 stated that:

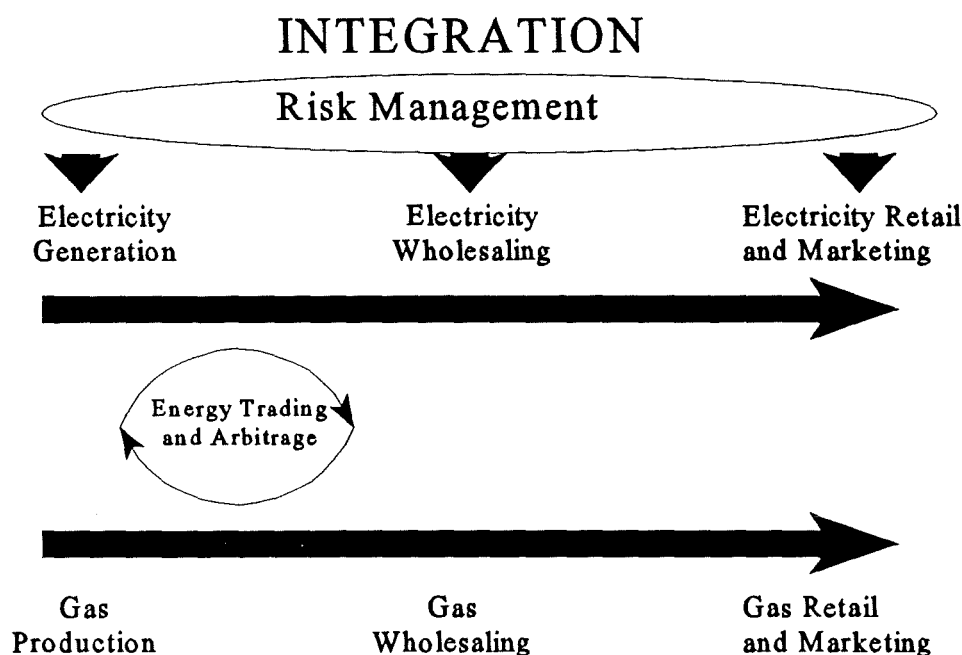
"companies will inevitably seek consolidation, either vertically or horizontally, regardless of the regulatory regime within the industry, supporting the work of Helm and Jenkinson (1997)"

This proposition is related very closely to the preceding proposition in many respects, especially in relation to the then 's comments about the Company's objective being vertical integration (Eastern Group, UK002, 1995b). Indeed, it may also be argued that it relates very closely to Proposition 2's concern for the achievement of critical mass. The attitude of Bain and Company perhaps reflects the wider view that organisation's that have an attitude focussed upon growth will seek to achieve consolidation.

Eastern, through its new emphasis upon energy trading, presents an example of a different form of consolidation to that usually experienced. Eastern established a subsidiary company called Eastern Power and Energy Trading (EPET). EPET grew out of a function that every REC possessed at privatisation, which was an electricity purchasing department. The impetus behind the establishment of EPET was a move towards emphasising the importance of portfolio management and risk management in a commodities industry. The evolution of an approach based upon risk management came out of the decreasing distinctions between the electricity and gas industries. In short the thinking behind the change was the realisation that there was a supply chain that the company could profitably be engaged in at every stage, and the key to this supply chain was gas. The centrality of this new operation is shown in Figure 9.1, which is adapted from Eastern's, now TXU Europe's, own graphical representation of how its business works.

EPET, as its significance developed and awareness of the potential it offered grew, took on a role driving the rest of the business forward. Or, if not driving it, then providing it

Figure 9.1: TXU Energy Chain



Source: TXU Energy Trading, 2000

with enhanced opportunity as this comment from the of EPET indicates: "we describe it (*the structure shown at Figure 9.1*) as a kind of doughnut. If you like we are the yeast that expands the doughnut. It would be very difficult for us to operate without those physical assets. We can see the value of those physical options, and we understand them as a company. It's maximising the value that we are really doing. So we have asset positions, and if you like we are the yeast that blows them out, and makes them a bigger thing. So we are not sitting above, but it is sitting somewhat separate from them" (Eastern Group, UK006, 1998).

This is therefore a different form of consolidation, one which has been made possible by vertical integration, through generation and owning gas supplies, and which can accommodate horizontal integration, through additions to the generation portfolio and buying Norweb Energi but which is effectively circular, and through the arbitrage possibility allows it to maximise its opportunity to take maximum profits, wherever profits may be located.

Therefore Proposition 5 is supported because Eastern has clearly benefited from both vertical and horizontal integration, although the preferred model it offers is slightly at odds with the classical concept of consolidation. Perhaps more indicative of this sort of

behaviour is the merger of its distribution business with that of London, which occurred after this set of interviews took place. A small aside, but it is interesting to note that the distribution business does not appear in Figure 9.1, suggesting that the Company now very clearly sees a distinction between its regulated and unregulated activities. Before closing this section, however, it is nonetheless important to note once again the view of the then and her observation that there was a potential that the Company would disengage from supply if it no longer appeared to fit the direction of their strategy, which as has been demonstrated is increasingly energy trading and risk management (Eastern Group, UK003, 1998). Clearly, the Company has moved away from the view that the classical form of consolidation is the only available avenue.

9.2.6 Commentary

Overall, therefore, this examination of Proposition's 1 to 5 based upon evidence gained from in-depth interviews with senior managers of Eastern Group would seem to support the conclusions earlier. Eastern does, however, present an interesting picture not so much in how closely it conforms to these propositions, but to how in some cases it is pushing back the boundaries of behaviour that these propositions describe.

The propositions are naturally a syntheses based upon the experiences and observations of the twelve companies. Some of the propositions apply to limited numbers of the remaining RECs: Proposition 2 for example would not be applicable to companies that have left supply. Eastern, as an organisation that has not to date divested its interests in one of the 'core' businesses, should be able to legitimise or invalidate each of the ten propositions developed. It is interesting to note that with P4 and P5 in particular, Eastern's activities have almost transcended the debate as established by the other companies within the industry. This issue, of Eastern as being different or the industry leader, will be returned to in Section 9.4.

9.3 Testing Propositions: Strategic Drivers

In pursuit of a resolution of Objective Two of this research, a series of observations with respect to strategic drivers evident within the sample was presented in Section 8.2. The author acknowledges that the patterns of behaviour identified in Chapter Eight, and derived from textual data, do not command a high enough confidence factor to be said to accurately reflect the relative importance of the five differing sources of influence on the strategy process identified earlier in the research. Section 8.2.4 set out, therefore, to establish a set of propositions which sought to describe the relative influence of each driver of strategy among companies in either regulated or recently liberalised industries.

These could potentially be tested empirically in later research. The structure adopted in Section 9.2 will once again be repeated. The process will be summarised in Section 9.3.6.

9.3.1 Legitimising Proposition 6

Proposition P6 stated:

“that the influence of an industry regulator upon a company’s strategy will depend upon the relative proportion of its profits generated from regulated activities”

A senior manager’s comments on the impact of the Regulator on Eastern are particularly enlightening, especially in the light of the view conveyed in the proposition which suggests that the impact of the Regulator has in some case been reduced: “The Regulator only has influence over certain parts of the business. This influence means that there will be no growth in our regulated profits. The trick is not letting them decline as quickly as the Regulator would like them to decline. All of our growth is expected to come in unregulated profits” (Eastern Group, UK004, 1998). The decision to seek a merger between Eastern’s distribution business and that of London can perhaps be seen as evidence of the Company seeking to remain one step ahead of the Regulator. The opportunity for profit comes as a direct result of the existence of commercial risk, which under the market system undermines the necessity for a surrogate for competition. Hence, this suggests support for the view that as the level of competition rises, the importance of the Regulator diminishes. This is not to suggest that the Regulator has no power. Companies are weary of not upsetting the Regulator, who retains a ‘picture’ of how the industry should develop. As one manager put it “we don’t want to do anything that upsets the Regulator. The Regulator is a human being as well, and if you do something in the generation business (*that he doesn’t like*) and he can’t do anything about it....well he will just penalise you in the networks business. So you don’t want to get on the wrong side of him” (Eastern Group, UK004, 1998).

The key to the relationship is therefore perhaps a combination of ‘testing’ and ‘petitioning’ the Regulator. For some of the companies, and Eastern in particular, there appeared to be a degree of flexibility in their relations with the Regulator, and an attitude that ‘if you don’t ask, or don’t try, you won’t know what is possible’ appears to have prevailed. Despite the concern voiced above for not offending the Regulator, other managers opined that Eastern’s size made them more likely to be listened to than smaller companies. Additionally, if a company is sensible, it will endeavour to make a strong business case in dealings with the Regulator. One manager described the appropriate methods of managing the Regulator as follows: “If you are a little company that has been griping away about how bad the Regulator is, and how bad the regulation is, then I wouldn’t have

said that the Regulator is going to take much notice of you. If you are pro-active, and put up a case, and at the same time you are looking for opportunities that the regulation allows you to look at then you are engaging in the process, and that was what the privatisation was all about. Regulation is not about the regulated business only. It's about the opportunities created in the unregulated business as well, and how you are managing these. I think we are a company that is very much listened to by OFFER and OfGAS, which helps when you get things wrong. A bit like the issue with our doorstep selling, where we have had some flak¹. Well, we have managed that quite well. We've made some mistakes, but we have put our house in order, and OfGAS have not made an issue. It is only because of our credibility, and the way we deal with our business, the way we deal with things, we have been able to convince OfGAS that we are a credible company. We will hold our hands up and say 'sorry', if we have got things wrong" (Eastern Group, UK005, 1998).

An example of Eastern's attempts to petition the Regulator can be observed in the Company's reaction to the second regulatory review of 1994-95. After the first review; which was portrayed as being kind to Eastern, the Company had announced significant investment in its infrastructure. The message was therefore 'we will invest profits in a better system'. However in 1995, the second review prompted by Northern Electric's defence of the hostile bid from Trafalgar House produced much more stringent price reductions. As a result John Devaney, then CEO, complained that the Regulator was not being consistent, and that that lack of inconsistency was making the business of running companies increasingly, and by implication needlessly, difficult. Devaney was quoted as saying "only a few months ago we agreed to a regulatory formula which was based on rigorous analysis by the regulator for more than a year. Since then all our future plans have been based on this formula. It is remarkable that OFFER might consider further tightening the controls which have already reduced our income by more than £350 million over the next five years. If this goes ahead our proposals to improve the network through massive investment will need to be reviewed" (Smith and Hollinger, 1995). This indicates that although the Regulator has an impact upon the business of the Company, the senior management of Eastern were not placed in a position where they meekly accepted rulings without comment. The above statement was perceived to be aimed at unseating the then

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During the trial period at the opening of the retail domestic gas market, in the SWEB region, Eastern were criticised over the behaviour of their door-to-door sales staff, who were accused of 'bullying' or unethical tactics to win customers. It is noticeable that following recent developments, Eastern has decided to cease door-to-door selling operations and have switched their emphasis onto internet sales, and telephone marketing (Taylor, 1999c). However, this decision may have more to do with cost, than with public relations.

Regulator, clearly an attempt to assert power within the industry by Eastern.

The balance of the relationship between company and Regulator will change as the industry changes. Already there is a single Regulator for electricity and gas, and further changes lie ahead in the near future. Globalization and competition are having clear impacts upon the power of regulators. If Eastern earned 50% of its profits outside of the UK, then consequently the significance of the Regulator would diminish. For a Company like Eastern, therefore, the Regulator acts as a potential check upon its more adventurous business activity, rather than a direct influence upon its corporate strategy.

The above analysis would seem to support Proposition 6, which would identify Eastern as just the sort of organisation which due to the strength of its non-regulated activities witnesses less influence from the Regulator on its strategy. Earlier sections of this chapter examining the Company's strategy indeed noted that Eastern appears to be effectively divided in two: regulated and non-regulated. Arguably, therefore, the influence of the Regulator will be more pronounced in its distribution business than in its supply business. However, the above analysis did note that the Regulator has a set of views as to the correct operation of companies across the whole industry, and the potential, through his power over the regulated portions of a company, to punish it for perceived failings elsewhere. While Eastern remains in distribution, or while there is still an industry regulator, therefore, the Regulator will retain some influence over strategy, although clearly that influence will not be as strong as it would be if Eastern were only engaged in distribution activities. In relation to the impact of this particular strategic driver, and this particular company, the issue appears to be not how the impact is felt, but how it is managed.

9.3.2 Legitimising Proposition 7

Proposition P7 stated:

“that companies pursuing a strategy across a range of sectors will be subject to influences from a variety of different drivers, but that the extent of the influence each exerts will be situational”

In attempting to defend this proposition, it is necessary to consider which of the various influences, identified in Chapter Eight, have played a part in driving the Company's strategy. Among the most relevant potential influences are: the managers of the company itself; the attitude of its owners, initially expressed by the views of financial institutions and the City of London, but following takeovers by the new owners themselves; the actions of other RECs and other potential competitors; and the demands of their

says 'this company is just not performing. Do something about it'" (Eastern Group, UK004, 1998). This is certainly the case with the change in approach of Eastern Group after 1993. The City's view led to change, but the direction and outcome of change was shaped by the new senior personnel.

The _____ stated that the "more innovative culture" of Eastern, and the heightened awareness of the demands of the new operating climate after 1995 were related directly to the 'principles and actions' of Devaney and Anstee (Eastern Group, UK003, 1998). The management style and approach of Devaney is captured in the following statement: "We think we are more innovative than anyone else. It has a lot to do with John Devaney's management style, which is very much 'if you deliver the bottom line (which is what the City is focussed upon) then I don't particularly care how you do it within the strategic framework that has been agreed'. So he doesn't box people in, and say 'that's your responsibility and don't think about anything else'. If someone comes up with a good idea, then he feels that they should be allowed to go and develop that. So we have a lot of initiative within other businesses. I'm the _____, but I don't determine and then tell everyone else what to do" (Eastern Group, UK003, 1998). Another interviewee summed it up as follows: "between 1947 and 1990, there had been very little change. Minor reorganisations and minor adjustments. We have now seen change upon change upon change, and change has become the norm" (Eastern Group, UK005, 1998). This suggests the appropriateness of a change approach to leadership, as defined by Farkus and Wetlaufer (1996).

This more entrepreneurial approach ran in tandem with the pressure from the Regulator for the different activities of companies to be conducted in totally separate legal entities. This process began in earnest in Eastern in 1996. At the time of the interviews, Eastern had a variety of separate companies: Eastern Generation Ltd; Eastern Power and Energy Trading Ltd; Eastern Energy Retail Ltd; Eastern Electricity plc and so on, which were all companies in their own rights, and each produced their own accounts, and each had their own boards of directors. Increasingly, these companies also started developing their own IT capabilities, HR functions, and business development teams "because they are companies and that is what companies do" (Eastern Group, UK004, 1998). Eastern emerged from this period with more of a holding company structure, replacing its former divisional structure. The corporate centre now performs more of a coordinating than a leading role.

A side effect of the entrepreneurial culture has been a de-emphasis of procedures such as

planning. Planning, some managers feel, implies constraint and that runs counter to an entrepreneurial culture. This approach was attributed to the importance the City places upon immediate profitability and a consequent de-emphasis on assuring the future economic sustainability of the Company (Eastern Group, UK004, 1998).

As clear as the managers were about the importance of their leadership, they were equally clear about the lack of attention Eastern paid to its competitors. Indeed, Eastern believes that it is the Company that everyone else is watching: "We probably don't pay a huge amount of attention to what they (*the other RECs*) do because we feel we have slightly left them behind. When you go to industry conferences you get the views from other RECs of what they see the market doing, and so on, and we have seen the emergence of common themes, which we would say we had initiated" (Eastern Group, UK003, 1998). Vertical integration was one such area. However, the _____ felt there was a definite divergence of viewpoint between Eastern and the companies following it, and the multi-utilities like United Utilities, Hyder and ScottishPower which were developing a distinct strategic view. In essence, Eastern did not believe that the general public are ready for a 'bundle²' of products, while the multi-utilities do, or at least did³.

Eastern were arguably the market leaders in realising that to prosper in the new environment, companies would need strategic allies. In the words of the

_____, the defensive approach of some of the RECs in 1995, based upon the belief that they could retain independence, was "not a serviceable strategy" (Eastern Group, UK003, 1998). This decision, the Company argued, reflected the facts of life in the industry at the time. Standing still meant that somebody would buy you, and Devaney and Anstee realised that it was preferable to find a partner that you could work with rather than being swallowed by a predator. The influence of the CEGB was to be found at the heart of the generally held but erroneous view of 'invulnerability', Eastern argued. Companies did not believe that they could fall victim to predators.

The choice of Hanson as a partner came after the senior Eastern managers had been

2

A bundled product offering would see the same company offering the full range of utility services - electricity, gas, water, telecoms, cable TV and so on, as a package.

3

Since 1998, when this interview took place, Hyder have withdrawn from energy altogether, and United Utilities have withdrawn from electricity and gas supply, selling their supply business to Eastern.

'selling' their company very aggressively. The _____ believes that this made the difference between Eastern and the rest: "There is no question that John Devaney and Eric Anstee went out selling Eastern, which was the sensible thing to do. If you know you are going to have to find a partner, or someone to take you over then you go out and you do the marketing and you say 'we are brilliant, we are the best, we are going to decide who is good enough for us, not the other way around'" (Eastern Group, UK003, 1998). In this way, the takeover was more akin to a strategic alliance, with the influence of the owners coming to be seen principally as that of an enabler; specifically through the provision of financial resources to support the future development of the organisation's strategy. The alliance originated, however, in a clearly prescribed strategy of the senior managers of Eastern. It did not emerge as was the case with so many of their competitors.

Hanson's influence over the day-to-day running of Eastern was limited, as this further extract from an interview with the _____ shows: "The way the Group (*Eastern in Hanson*) was structured was that we got a sign on to our strategy, and we got a sign on to our management structure, and a sign on to making our own decisions vis-a-vis capital and so on, which allowed the business to run pretty much as usual. There was an extra layer of management, which you didn't really notice until it came to financial reporting" (Eastern Group, UK003, 1998). Hanson's main demand upon the Group was for enhanced reporting systems to meet their reporting requirements. Apart from that, the impact was minimal. This arrangement, quite different to the perceived usual outcome when Hanson buys a company, came as a consequence of the strong negotiation undertaken by Eastern's leaders at the time of the takeover.

As already stated, the interviews that form this analysis were undertaken and concluded immediately prior to the takeover by Texas Utilities, and consequently the impact of the new owners can not be adjudged from primary sources. It is possible to speculate however that very little has changed in terms of the strategy that the Company is pursuing. The evidence for this assertion comes primarily from the group structure, which closely matches that which was in place when Eastern/The Energy Group was owned by Hanson. A counter argument would suggest that new owners and indeed a wholly new management team would have introduced considerably changed management and working practices, but it is not possible to verify this view at this time.

Overall, therefore, this analysis of the influences on Eastern's strategy would seem to very largely support Proposition 7. Section 9.3.1 had noted the relatively limited influence of the Regulator on Eastern, but all of the other key influences appear to have played a part

at one point or another, since its privatisation. Not only that, but the balance of influence appears to have shifted over the period, and this requires further comment.

The statements recorded above suggest that external factors impinge upon Eastern only in the sense of providing an opportunity through the 'failings' of competitors. As noted, Eastern almost takes pride in not paying attention to what other companies are doing, believe itself to be the market leader and hence with nothing to gain, or lose, from monitoring the behaviour of other RECs. In contrast, the search for competitive advantage appears to be driven mainly by internal factors: the various resources the company possesses which offer it greater flexibility, speed, and innovation than competitors, which will be discussed in greater depth in Section 9.3.4. The development of the importance of energy trading is a clear indication of the way in which its resources can drive its competitive approach. However, above all of these other factors, leadership appears to have been key for Eastern, and especially so during the period that Devaney was CEO of the Company. During this time, the philosophy of the organisation changed markedly, and established the entrepreneurial and innovative environment that has enabled Eastern to adopt its industry leadership position. Consequently, the Eastern case largely legitimises Proposition 7, but suggests that internal and leadership factors have had a greater impact.

9.3.3 Legitimising Proposition 8

Proposition P8 stated:

"that organisational size will be a key factor in an organisation's management of its relationship with strategic drivers"

To a large extent, this proposition has been addressed in part in the commentary accompanying Proposition's 6 and 7. In the commentary for Proposition 7, the extent of Eastern's 'lack of concern' for the actions of competitors was expressed, although the author has doubts about how universal the support for this statement would be from within the Company. It is very likely, for instance, that managers in the supply arm of Eastern would need to be aware of competitors behaviour, given the extreme nature of competition in this industry. Proposition 6 indicated that for a company like Eastern, with extensive non-regulated activities, the Regulator was less of an influence, albeit an influence nonetheless. Consequently here is the 'strongest' company in the industry, being influenced by both external factors and the Regulator.

Ultimately Proposition 8 is tentatively supported, because it is the case that the evidence

presented suggest that Eastern, a large strong company, makes strategy with less reference to external and regulatory factors than other key factors. It's market strength may, therefore, prove this relationship but not conclusively. Reference to other cases is required before this proposition can be supported with a high degree of confidence.

9.3.4 Legitimising Proposition 9

Proposition P9 stated:

“that companies will seek to develop greater control over the impact of strategic drivers by developing key internal capabilities to achieve sustainable competitive advantage”

Eastern presents a strong example of an organisation where internal factors have played a key role in the development of strategy. As earlier commentary has shown, Eastern began the post privatisation period with a belief in the strength of its marketing and customer service capabilities, as well as an awareness of its relative financial power, and considered itself a market facing organisation. However, it is possible to argue that prior to the turnaround it experienced in 1993-94, it did not seek to maximise the value of its internal resources, and instead pursued an industry focussed approach by following its pre-privatisation line, in common with other RECs. Any advances the organisation achieved came after it sought to lead the industry, through innovation and maximising the use of its resources.

Eastern presents a number of instances where internal factors have driven strategy, and so have sought to assume greater control over other drivers. It has already been noted that leadership has played a considerable part in strategy development: firstly, Smith and generation; secondly, Devaney and the development of an entrepreneurial culture, creating organisational adaptability which itself is a valuable resource. Devaney also spear-headed the agreed acquisition of the Company by Hanson, after a realisation that independence was not a long-term option for the companies of the ESI, especially if they had ambitions to become wider ranging energy companies. The takeover by Hanson arguably marks the beginning of the period when resources became the key in the Company's strategy making. A first instance came with the expansion of Eastern's generation portfolio. Eastern now benefited from Hanson's capital and reputation in winning the contest for the generation plant divested by National Power and PowerGen.

The entrepreneurial culture of Eastern, as was noted in respect of Proposition 2, saw the company seeking to double its base of supply customers (Eastern Group, 1998, UK005). The demands upon its adaptability are shown in these comments from the

for EPET: (*talking about the decision to try and double the customer base*) “there was a conscious company decision to go for that rate of growth....because you get one shot at this. I think we are the largest after Centrica now. We grew more than anybody. We planned for success as well as failure. We asked ourselves ‘can we cope with a million or a million and a half new customers? Well probably not, but let’s make the systems modular so that if things go bananas then we can add some more to them” (Eastern Group, UK006, 1998). Eastern’s innovative culture also identified the capability it possessed in energy trading as a distinctive competence and led to it becoming the core business driving the non-regulated side of the Company’s business (Eastern Group, UK006, 1998). This innovative culture has also allowed it to anticipate the potential of the industry, and saw the Company becoming its *defacto* leader.

However, after this focus upon internal factors it is important to note that one interpretation of the actions of Eastern in developing down-stream capabilities in generation and gas fields was to overcome the bargaining power of suppliers, and hence this part of the Company’s approach was very much governed by external factors. In addition, while the Company claims that it does not pay much attention to competitors, it has paid clear attention to the needs of buyers (as discussed in Proposition P3), where it has established a competitive utility position to increase its customer base.

Proposition 9 is therefore partially supported in the case of Eastern, although the importance of leadership in ‘unleashing’ the full potential of internal factors like resources can not be underestimated. The leadership of an organisation creates or sustains a culture which permits the full exploitation of its resources. However, as this case also demonstrates, external factors will also impact upon the strategy making, and must be considered alongside leadership and internal factors. Mainly, therefore, this discussion further serves to strengthen the confidence that can be placed in Proposition P7, rather than fully offering support for P9. However, what is clear is that Eastern has sought to develop its internal resources to aid the achievement of competitive advantage, with the aim of mitigating the impact of other drivers of strategy.

9.3.5 Legitimising Proposition 10

Proposition P10 stated:

“that ownership is the key influence over strategy”

Chapter Eight saw a recognition of the growing importance of ownership in strategy formulation within the industry, and its inclusion in the drivers of strategy framework. The interviews conducted within Eastern Group were concluded immediately prior to the

takeover by TXU in 1998, and so little can therefore be added to the commentary presented in Section 7.1. However, it is possible to speculate upon the importance of the period of ownership of Eastern by Hanson. This analysis has to date acknowledged the autonomy that Hanson provided to Eastern following the takeover (Eastern Group, UK003, 1998). The day-to-day involvement in decision making in this case is therefore limited. This appears to have been a condition of the agreement, negotiated by the managers of Eastern during the early discussions with Hanson. It would, however, be fair to say that Hanson would have placed performance targets upon the Company, and that the degree of autonomy enjoyed by Eastern's managers would have been severely curtailed if it had not continued to meet its targets. Hanson's biggest impact upon Eastern was, as a manager recalled, its financial reporting requirements: "Hanson was still very strong on financial reporting, so we had to put in place management information systems which allowed us to meet their reporting requirements. But apart from that we were never really aware of the heavy hand of Hanson" (Eastern Group, UK003, 1998).

Eastern was an integral part of the Energy Group which was de-merged from Hanson in 1996, and took the Company even further away from the day-to-day control of its owners, although The Energy Group was "mainly ex-Hanson people". However "they (*the ex-Hanson people*) struggle with the fact that they have two very independent subsidiaries (*Eastern and Peabody Coal, the other integral part of The Energy Group*), who make their own decisions about strategy and business development *et cetera*, and then tell The Energy Group 'this is what is happening'. They are much more used to the opposite situation" (Eastern Group, UK003, 1998). Clearly, therefore, Hanson's role in the Eastern story is as a facilitator, providing extra resources and extra opportunity, but not driving strategy. The nature of their relationship appears to have developed as a consequence of the tough initial negotiation between Eastern's managers and Hanson, and indicates that the relationship was closer to strategic alliance than takeover, albeit a strategic alliance where one partner owned 100% of the assets of the other. This case study can not, therefore, support Proposition 10 with any great degree of certitude. However, it is conceivable that the arrival of new owners, and the departure of old managers within Eastern has changed the basis of the relationship between owner and subsidiary.

9.3.6 Commentary

This case study provides evidence which strongly supports some but not all of the propositions. Eastern very clearly indicates an organisation where the key strategy drivers are internal: leadership and resources, rather than those which are predominantly external: regulation and the industry. However, Eastern also indicates that regardless of the power

of an organisation, it can not totally overcome the potential for external factors to impact upon its strategy. Eastern, as a case study, suggests that while all of the propositions presented here are to some extent legitimised, there is not the degree of certitude that was witnessed with Proposition's 1 to 5. This suggests that generalising about drivers is more difficult, as the relationship between a company and its strategic drivers is inevitably unique, and situational, whereas the range of viable strategic responses in such an industry is necessarily narrower and hence lends itself to generalisation. Possibly, therefore, Proposition's 6 to 10 role in future research should be as stimuli to prompt debate, leading to a wider understanding of the complex process of the exercise of influence and sustainable generalisation.

9.4 Validity of Classification

In Section 8.3, a series of classifications were presented based upon the analysis undertaken for each of the companies in Chapter's Five to Seven, and summarised in Chapter Eight. This section aims to consider the classification arrived at for Eastern Group, and to consider what the judgement reached in this case can tell about the wider validity of the classification system proposed by Miles and Snow (1978), in a regulated environment.

9.4.1 Validity of Classification of Eastern Group

In Table 8.9 of Section 8.3, the following classification's were made in relation to Eastern Group:

- ▶ that it was an integrated energy company by acquisition, utilising an utility approach in competitive markets;
- ▶ that it employed strategy combination Variant 3C in its distribution business, and Variant 5B in its supply business;
- ▶ that the key influences over its strategy making were a combination of external, internal, leadership and ownership factors;
- ▶ that the owner was pursuing 'hands on' strategic asset seeking investment; and
- ▶ that Eastern was in consequence an analyzer, using the Miles and Snow typology.

Briefly, an analyzer is an organisation that is seeking to exploit new product and market opportunities revealed by the actions of a prospector organisation, while defending its core business area. It is a complex hybrid organisation, which will have differing objectives in its different areas of business, and consequently will be organised and managed differently to facilitate these contrasting demands. How well does the concept of the analyzer, explored in greater detail in Section 2.5.6.2.3, describe the reality of

Eastern Group?

The dual domain nature of the analyzer clearly matches Eastern's experience. However Eastern's experience does not accord fully with the concept as developed by Miles and Snow. It is the case that in its distribution business, Eastern would act very similarly to the concept of the defender as developed by Miles and Snow with that archetype's emphasis upon cost management and efficiency. However, as Eastern's distribution business is a monopoly, it would not share the same concerns as a traditional defender in erecting barriers to entry. This is a criticism that can be applied to the model as a whole, and is especially important in attempting to analyse RECs that only retain an interest in regulated areas, and will be returned to in the following section.

The principal difficulty, however, arises in relation to the second part of the concept of the analyzer: the new product and market development activity which comprises "a second-in strategy whereby they imitate and improve upon the product offerings of their competitors" (Miles and Snow, 1986, p.54). Within the original model, the competitors referred to here would be prospector organisations. However, as Table 8.9 showed, there was no evidence of a classical prospector organisation (as described in Section 2.5.6.2.2) within the industry.

This observation suggests that there is something absent from the industry, namely the presence of a prospector. This issue will be returned to in the following section, and initiates a discussion in relation to Objective Three of this research which will be returned to in Chapter Twelve. In relation to the question of the validity of the classification applied to Eastern, it would appear to be insufficient. Eastern is not a classical analyzer, as for the most part it has not followed the lead of a competitor in the development of its new products and markets. Indeed, it itself has been the most active of the RECs in identifying new areas of product and market development. There is a clear need to amend this classification.

9.4.2 Inductive Analysis of the Validity of Classifications

The preceding analysis suggests that: (a) calling an organisation that engages in monopoly activity 'a defender' is potentially inaccurate; and (b) that the Miles and Snow (1978) model as it stands is insufficient to describe the observable characteristics of the ESI model. In relation to this second observation, this case study of Eastern Group has shown that innovation does occur, but not in the fashion, or to the extent, predicted by Miles and Snow in their model. The model does not appear to allow for an industry situation where outright prospecting is a non-viable activity and what prospecting that does occur must

be undertaken by any of the companies within the industry, certainly incrementally, and possibly across a wide range of companies, who in effect share the role. This case study suggests, therefore, the initiation of a new archetype, designated the cautious prospector or the innovative analyst, to overcome this deficiency.

In relation to the first concern, whether a defender classification can be applied to the monopoly activities of a REC, the following options for debate are proposed: firstly, that the classification be accepted with reservations; secondly, that the designation be changed, creating another label such as 'monopolist' to prevent any confusion with organisation's actually pursuing classical defender behaviour; and thirdly, that the system of classification not be used in relation to monopoly activities. The debate in relation to both of these perceived difficulties with the system of classification proposed by Miles and Snow will be rejoined in Chapter Twelve, following further contributions from the analysis of cases in Chapter's Ten and Eleven.

9.5 Other Key Issues

During Chapter Two, a variety of other key issues emerged in relation to strategic content and strategic drivers that have been alluded to during this chapter and the four that preceded it, but which have not necessarily been the core focus of attention. The aim of this section is to comment upon issues such as these, in order to provide extra depth to the discussion which has occurred above. The first such area is that of differing concepts of strategy in relation to the firm.

9.5.1 Competitive Forces verses the Resource Based View

In Section 2.2, the differences between authors adopting the competitive forces view, and those adopting the resource based view of strategy making in the firm were discussed. Throughout the analysis presented in this chapter, both of these views have been referred to as necessary, but an overall view of their validity in the context of the Chapter has not been presented. The objective of this section is to present this view.

In Section 2.6, a model outlining the relationship of the various factors influencing strategy was presented, which argued that it was not practical to base a strategy on either a competitive forces approach, or a resource based approach in isolation and that for superior performance they needed to work in tandem. This was the basic argument developed by Grant (1991), in proposing a greater emphasis upon resources and is the view shared by the author. This case study provides considerable support for this view.

Throughout this case study, the relationship between the differing views has been made clear. In the early period, Eastern was predominantly adopting a competitive forces view, orienting itself to its industry and pursuing relatively predictable traditional strategies that did not take into account the potential advantages its unique capabilities may present to it. Nevertheless, and despite the negative tone adopted here in relation to this period, the key decision to undermine the bargaining power of suppliers, by starting the process of backward integration, was undertaken during this period as was the beginning of a customer facing and customer focussed organisation.

The Company did, however, become more effective when it combined an awareness of the value adding potential of its resources to this market facing attitude. The development of an entrepreneurial, innovative and adaptive culture, allied to strong financial resources and visionary leadership allowed the organisation to become a market leader. The author argues that therefore Eastern presents a strong example of the sort of organisation which has followed the arguments of the resource based view, to strengthen its performance in its chosen market places. This is not to underestimate the impact of external forces upon the strategy process, which have also been considerable. The key is to establish congruity between the two.

9.5.2 The Impact of Process

Throughout the chapter, reference has been made to the extent to which certain strategic decisions have been either prescriptive or emergent, following the discussion in Section 2.1.2.2. Overall, it is necessary to make two observations:

- ▶ firstly, that the objective of senior managers in pursuing either predominantly prescriptive or emergent strategic objectives has changed over time; and
- ▶ secondly, that there would appear to be different approaches at work in different parts of the organisation.

In relation to the first observation, it is necessary to reiterate the concern expressed by Mintzberg that pursuing either process in a 'pure' form would damage an organisation (Mintzberg, 1990a). All of the evidence and analysis developed thus far in this case would suggest that Eastern adopted a more prescriptive approach to strategy making in the period immediately following privatisation. Evidence emerges from one manager's description of a "very strict audit regime" where "your authorisation level was always pretty low", a command and control culture which is indicative of a prescribed view of strategy, and one that is no longer common in the Company (Eastern Group, UK005, 1998). There was evidence of 'high level thinking within the Company under Smith, when he would gather directors together and ask questions like "where are we going

guys? What are our big challenges? What are our priorities? And that kind of thing. Devaney is not so much in favour of that" (Eastern Group, UK004, 1998).

Another manager, who joined Eastern shortly after the turnaround in Company strategy and culture, illustrates the debate by discussing the issue of strategy and planning with reference to the management style of the then CEO: "It has a lot to do with Devaney's management style, which is very much 'if you deliver the bottom line....then I don't particularly care how you do it within the strategic framework that has been agreed'. We have a lot of initiative being exercised within our businesses" (Eastern Group, UK003, 1998). She continued by saying "we don't actually have a strategy....each business has their own business development function" and implicitly they are left to drive their business as they feel appropriate, although there is conflict from time to time (Eastern Group, UK004, 1998). Despite the lack of a formal strategy, as defined by the 'strategy as plan' viewpoint (Mintzberg, 1987b, and Section 2.1.1.1), the Company adopts the view that there are two 'chains' in its non-regulated activity, the electricity and the gas chain as illustrated earlier at Figure 9.1. All managers are empowered to assist in the maximising of benefit from these two chains.

Although this description makes Eastern sound like a unitary body, there are inevitably operational divisions, as running an organisation of 7000 people without such divisions would be logistically difficult (Eastern Group, UK004, 1998). Hence there are operational targets, strategic and operational rivalry, and hence conflict can arrive. Eastern to a large extent therefore reflects the benefits, as well as the dangers of a more emergent strategic process.

It is also clear that different strategic process are at work in different parts of the organisation. As noted previously, the distribution business now operates totally separately from the non-regulated activities, for operational as well as regulatory reasons. Indeed, as the distribution business has now been merged with the London Electricity distribution business, the only shared area among the different parts of the Group is its common ownership. Clearly, also, the regulated distribution business would benefit from a more prescriptive approach, given its focus upon efficiency and effectiveness, and its non-commercial focus. The non-regulated businesses, as discussed above, adopt a much more emergent approach. It is worth speculating, however, that as a dominant model has recently emerged, based around the TXU Energy Chain illustrated at Figure 9.1, the need for more prescription in the Company's approach has developed. This suggestion equates an emergent approach with industry uncertainty, or rather that the prescriptive approach is more usual in predictable industries (Mintzberg, 1990a). Unfortunately, given the

timing of the interviews, it is not possible to be more precise about the current strategic thinking within TXU Europe, and this issue is one for future research.

9.5.3 Strategy Making at Different Levels

Eastern presents clear evidence to support the views of Buzzell and Gale (1987) that strategy making occurs at different levels of the organisation. This reflects the evidence presented in the preceding section in relation to emergent strategy, and the degree of autonomy SBU and functional managers have in determining business level strategy. One interesting statement which illustrates the degree of autonomy came from the

of EPET, who said when asked how success was judged within Eastern said: "Money. Bottom line, that's when you know you are succeeding. We tell the Board how much we can conceivably deliver, and they say 'done'" and they leave us to achieve it" (Eastern Group, UK006, 1998). Another manager, when describing the change in attitude pre and post 1994 said that, post 1994, "the management's view is that if it is adding value, then we will leave it to you to determine whether you should spend money on it" (Eastern Group, UK05, 1998). These comments, allied to the comments reported in Section 9.5.2 show a clear picture of a dominant coalition establishing a guiding pattern of strategy at the corporate level, and undertaking domain selection, while lower level managers determine the competitive strategy as appropriate and as based upon their perceptions of the demands of their markets. This equates to the 'strategy as pattern approach' (Mintzberg, 1987b) of an umbrella strategy (Mintzberg and Waters, 1985).

9.5.4 Leadership

Once again, throughout this narrative, the impression of different leadership styles has emerged. While the leadership of Eastern initially exhibited signs of a 'strategy approach' or possibly a 'box approach' (Farkus and Wetlaufer, 1996); the author's uncertainty as to the precise description of the chosen approach probably reflects the reality that the approach was somewhere in between, after 1994 it was clearly a 'change approach'. The dominant coalition of Devaney and Anstee created an environment which challenged the existing recipe and provoked uncertainty, but also established an entrepreneurial environment which rewarded initiative. It also, crucially, established a consensus. Once again, the timing of the interviews precludes the development of a view on the current dominant approach but it is likely that the need for a change approach has reduced, for the reasons given in Section 9.5.2 and 9.5.3, leading to the development of a 'strategy' or a 'human-assets approach' among the new leaders of Eastern.

Largely, it can be argued, Eastern has witnessed transformational leadership (Burns, 1978), rather than transactional leadership, reflecting the more emergent, value and vision

based nature of strategy within the Company for most of the period under study. Interestingly, the key members of the dominant coalition appear to have been the CEO and the Finance Director, a combination which would usually be associated with a defender organisation rather than the analyser/cautious prospector organisation identified in Section 9.4. The formulation established by Miles and Snow (1978), therefore, does not hold in this instance. This almost inevitably reflects the aim of the , and the fact that appointments made during this period were intended to sustain the entrepreneurial culture of the Company. The , when interviewed for this research, identified that he had appointed around 20 people in key positions within the organisation, to “provide a scattering of necessary experience”, and had removed ‘less good managers’ during this process (Eastern Group, UK002, 1995b). This suggests that there was also an element of a ‘human-assets’ approach (Farkus and Wetlaufer, 1996), establishing satellite CEO’s who were ‘on message’, to certain aspects of dominant coalition behaviour.

9.5.5 The Impact of Structure

Section 7.1, in discussing the question of culture within Eastern, concluded that structure initially followed the Company’s strategy, but that as it developed, the structure emerged alongside the prevailing strategy. Eastern’s structure is now that of a holding company, although there is much greater cohesion and integration among the non-regulated parts of the business than in other companies adopting similar structures. While the distribution business is run completely separately for operational and regulatory reasons, following the introduction of the Utilities Act 2000 (James *et al*, 2001), the non-regulated businesses are also run separately but with a common objective. Referring once again to Figure 9.1, it is clear that there is a relationship between energy trading, generation and gas and electricity supply. Energy trading has removed the commercial risk from both of the other activities, by assuming and managing its risk on their behalf. The result is a hybrid structure which is neither functional, nor divisional, but akin to the internal network structure, described by Miles and Snow (1992, and Section 2.4.2), and extending their matrix conception (Miles and Snow, 1986). Its aim is “to gain competitive advantage through shared utilisation of scarce assets” (Miles and Snow, 1992, p.65), or rather to provide value adding services to each other’s operation: management of commercial risk by EPET on behalf of supply and generation, dual-fuel arbitrage possibilities opened for EPET by the operations of supply and generation, through close interrelatedness.

9.6 Concluding Remarks

This chapter’s primary objective was to continue the process of verification of the ten propositions developed during the preliminary stage of this research, through a series of

in-depth interviews with senior managers of Eastern Group. In so doing, the process of providing solutions and outcomes for Objective's One and Two of this research was continued, headway was also gained in relation to Objective Three, and the legitimization of the propositions continued the work of Objective Four of the research. In addition, other relevant commentary on the transformation of this organisation over the time period was provided and conclusions drawn.

The summary of the progress made with respect to Proposition's 1 to 10 will be presented in Chapter Twelve, but at this point it is possible to say that:

- ▶ in general, the case study provides support and legitimation for all of Proposition's 1 to 5; but
- ▶ while some support for Proposition's 6 to 10 is also provided, the degree of this support is not as conclusive as for Proposition's 1 to 5, and the author wishes to reappraise the content of these proposition's in Chapter Twelve.

The support, or otherwise, for Proposition's 1 to 10 represents the confidence currently held in the observations made thus far in respect of Objectives One and Two. Concern was also expressed with respect to observation's made in relation to Objective Three, which will also be discussed in Chapter Twelve.

Finally, this chapter concludes with a brief consideration of another key issue identified in Section 2.6: Miller's contention that qualitative research opens up the possibility of identifying 'organizing themes' (Miller, 1996). Miller argued that certain influences placed "a marked emphasis upon some tactics and a supportive co-alignment among many others" (Miller, 1996, p.507), establishing the organizing themes and allowing multivariate analysis to be undertaken to establish these themes. The author identifies the establishment of these themes as a key outcome of this research, and their multi-variate analysis (as part of a wider sample) as a key aim of future research. This case study, and the research in general, has established a relationship between the various influences upon strategy, and in this case between leadership, resource base and external influences in particular, to contribute towards this objective. The nature of this relationship is further discussed in Chapter's Ten and Eleven, and summarised in Chapter Twelve.

10.0 Introduction

The aim of this chapter is to continue the investigation into the content and drivers of strategy, following on from the analysis presented in Chapter Eight. This chapter is the second of three chapter's presenting case studies based upon in-depth interviews conducted with a representative sample of the RECs. Once again, the core focus of this chapter are the ten tentative propositions identified in Chapter Eight: five in relation to strategy content, five in relation to strategy drivers, and the aim is either to verify or falsify these propositions, and amend as necessary. The chapter also presents other data of relevance and interest to other aims of this research, and also addresses the question of classification in advance of the discussion in Chapter Twelve. In common with all of the cases, it aims to present a richer illustration of the relationships identified and discussed in Chapter Eight.

As with the preceding chapter, this case study does not feature an extensive biographical section on Seeboard, as that function has been performed in the separate case study of the Company presented in Section 7.3, which readers are referred back to. That case study presented:

- ▶ detail of Seeboard's operational area under the 1989 Electricity Act;
- ▶ the major strategic developments within the Company between 1990 and 2000;
- ▶ the major managerial and structural changes that occurred within the Company during this period; and
- ▶ an assessment of the aims, objectives and causes of the specific strategies pursued during this time, although this latter aspect of Section 7.3 will be reviewed in Section 10.1 of this case study.

The analysis and assessment of strategy in relation to Seeboard in Chapter's Seven and Eight was derived from information provided by existing published sources. The extended analysis and verification of the observations and propositions to be undertaken within this chapter have been derived from a series of in-depth interviews with managers both inside Seeboard, and within the wider energy industry. A list of all of the primary source interviews conducted in conjunction with this research was presented in Section 1.4. From this list the key interviews utilised in this chapter were:

- ▶ US002: , Dallas, October 1996
- ▶ UK007: for Seeboard, Crawley, February 1997
- ▶ UK008: for Seeboard, Crawley, March 1997
- ▶ UK009: for Seeboard, Crawley, June 1997
- ▶ UK010: for Seeboard, Crawley, June 1997
- ▶ UK011: for Seeboard, Crawley, June 1997
- ▶ UK012: for Seeboard, Crawley, August 1997

Material provided by each manager will be referenced accordingly in the section of chapter references¹. The chapter also utilises secondary source material as necessary, as well as internal company documents, and will be referenced accordingly. As a condition for the granting of these interviews, personal confidentiality was assured. Consequently, reference will only be made to the job title of each manager quoted.

10.1 Summary of Observations of Seeboard

As noted in Section 10.0, the first section of this chapter reviews the observations made of Seeboard in respect of:

- ▶ the narrative presented in Section 7.3 of Chapter Seven; and
- ▶ its analysis, and resulting conclusions with respect to the Company presented in the various reporting sections of Chapter Eight.

This brief 're-telling' of Seeboard's story is necessary for two main reasons: firstly, it provides the context for the following discussion and analysis; and secondly, because the conclusions reached at the end of this initial investigation provide the first 'point' of the triangulation process that this section is intended to perform.

10.1.1 Strategy Within Seeboard

The initial approach developed by Seeboard was very similar to that developed by Eastern. Seeboard was also initially an organisation which was highly prescriptive, centrally managed, and aiming to achieve a fairly narrowly conceived set of operational objectives. Once again, these objectives were based upon organisational efficiency and cost effectiveness in their core distribution business, and a progressive market development

¹

The transcripts of these interviews have not been included in the Appendices to this thesis.

approach in the secondary supply business. Seeboard was possibly expecting more than the small but positive contribution to the Group's operational profitability expected by Eastern in its appliance retail and contracting business: it spoke of having a "strategy to achieve improvements in the financial performance of the appliance retailing business.....and aims to improve the current level of profitability of the electrical contracting business" (Kleinwort Benson, 1990, p.536).

Of the businesses that Seeboard carried forward into the new era, therefore, the initial approach was certainly cautious but there was an expectation that the Company's experience and skills would enable it to prosper in the new environment. In supply, the Company was keen to develop its customer base, and was among the more aggressive of the RECs at the opening of the 1MW supply market. The Company announced at the same time that it was considering the possibility of investing in generation, but only if such a venture's profitability was assured, and only then with a suitable joint venture partner. In relation to other possible areas of investment, the Company was reticent. While stating that it would seek to invest in and develop other trading activities where competitive advantage could result from its existing skills and range of activities, there was no expectation that these activities would be substantial in the short term (Kleinwort Benson, 1990, p.564).

Initially therefore, and in common with Eastern, the strategy was cautious, rationalised, and based primarily upon concentrated growth. Seeboard was therefore among the larger group of RECs which was not seeking to diversify away from their core businesses, at least at this early stage. As the analysis presented in Section 7.3.1 shows, this situation did not change markedly over the intervening years. Seeboard has effectively adopted a narrow focus upon its business activities, and limited those activities to its traditional core distribution business, its supply, retail and contracting businesses, and to the 'new core' businesses of gas and generation. However within some of these businesses, it engaged in more adventurous activities such as horizontal integration in contracting, and market and product development in gas supply, while seeking greater market development in electricity supply. It also became a member of a number of consortia.

The Company's focus upon a concentrated growth approach ran throughout its operations. Therefore, cost management and quality service were of vital importance. In 1993-94 the Company set about re-focussing itself upon these strategic essentials. In this year, Seeboard fundamentally reassessed its objectives, and announced a new organisational mission: to be the best utility in the industry. This intention effectively signalled two basic principles that the Company would now adhere to: firstly, that cost

control and service quality needed further improvement, and secondly that there was categorically no possibility for diversification within this approach. Seeboard therefore reaffirmed that it was to seek to become the epitome of a sound, reliable utility investment.

The Company at around the time of the takeover by CSW in 1995 was seen as being the most efficient of the RECs, with high quality customer service, and an effective marketing approach which was bringing growth in its supply businesses. The takeover by CSW did not change much, with the possible exception that Seeboard was now expected to reach even more demanding growth targets in its supply businesses. As part of the process of achieving these objectives, the Company increased its involvement in consortia, and in strategic alliances aimed at growing these businesses. There was a greater emphasis upon gas, and an increased emphasis upon generation, as the new owners saw greater potential in the 'new core' businesses. The principle of narrow focus was reinforced by the decision to divest the Company's appliance retail interests in the recent past; one of the last RECs to do so. The future for Seeboard is, however, uncertain following CSW's merger with AEP, another US utility which is the current owner of Yorkshire Electricity. The Company appears to have been a close adherent to the concept of positioning yourself in relation to your market in an attempt to win competitive advantage rather than adopting a more resource based view.

10.1.2 Influences on Strategy within Seeboard

Seeboard did not begin the period with the same level of expectation placed upon it by industry analysts as for example Eastern Electricity had. However, as was noted in Section 7.0, the Company was based in the affluent South East of England and was therefore not predicted to struggle to adapt to the new environment. Economic activity and domestic demand were presumed to be relatively strong and the Company was not expected to face the sort of threats as were companies from the industrial north, for example. The initial result of this combination of factors was very similar to that witnessed with Eastern: senior managers schooled in the CEGB seeking to continue the work begun during the state owned era by managing their core businesses as effectively and as efficiently as possible. In Seeboard's case, the aversion to diversification was even stronger than it was initially in Eastern, and its plans for related areas such as generation not so advanced.

Seeboard, as with a number of other RECs, paused to reflect upon its strategic development in 1992-1993. As with Eastern Group, there had been disquiet within the City about the progress that the Company had made since privatisation. However, this

disquiet was different in nature from that which affected Eastern. The City's perspective on Seeboard was that it was not going far enough to maximise the benefits from its perceived core capabilities: *ie* of being an effective public utility. The new corporate objective, of being the best REC, stemmed from this reassessment based upon City concerns that the Company should be a higher quality service organisation, with lower operating costs. This contrasts to the City's view of Eastern: that it should be innovative and the market leader, and amply demonstrates that the City perceived the companies of the sector to be different, or at least to be capable of achieving different levels of performance.

As stated before, the author adopts the view that the reason for differing perspectives emerging from the City of London with respect to the different companies in the sector reflects differing levels of expectation from shareholders. It may be argued that shareholders held Seeboard shares because they wanted a stable, undynamic company that performed well in its core businesses. In contrast, it may be argued that shareholders held shares in Eastern because they expected the company to be dynamic and to earn returns above the industry norm.

Arguably, therefore, the key influences upon Seeboard have been those of its owners: shareholders seeking risk averse investment opportunities, and managers who have heeded the expectations of their shareholders and operated the Company accordingly. Seeboard, as a low cost, high quality organisation, was always a particular favourite of the Regulator, as his concerns and the Company's actions happily converged. This leaves the question of his influence upon the Company in question: either he could not be said to have strongly influenced the strategy development because he agreed with its focus, or he could be said to have been an influence because the Company adopted this focus to avoid a confrontation. The situation does not appear to have changed markedly with the change of ownership in 1995.

CSW are one of the group of new US owners who have not sought to significantly alter the aims, objectives, practices or management of their purchase. CSW purchased Seeboard because of its attributes and saw no cause for altering the recipe developed since privatisation beyond setting new, and higher, operating targets. Symptomatic of this satisfaction is the fact that Jim Ellis, CEO since 1992, is still the CEO despite five years of US ownership. The demands of Seeboard's original owners appear to have coincided with their new owners. The future impact of ownership is likely to be considerable, especially if Seeboard merges with Yorkshire Electricity following the merger of their respective parent companies. Throughout this period, however, owners, managers and

the Regulator have predominated.

10.1.3 Observations Drawn

While Section's 10.1.1 and 10.1.2 have alluded to the various conclusions drawn about the characteristics of Seeboard over the course of the analysis conducted in Chapter's Seven and Eight, it is necessary to briefly reiterate them here. Seeboard, as a company, had:

- ▶ initially pursued an approach focussed upon concentrated growth. However, following a review of the less than fulsome success of its initial approach, the Company decided that its efforts had to be redoubled in pursuit of this initial approach. Consequently, it became even more focussed upon this core strategy, and even less inclined to pursue diversification;
- ▶ a very 'command and control' oriented culture, with strategy driven very much from the Head Office. Over time this culture has changed, as the Company has sought to develop a more market driven approach, but its culture can not be said to have developed in the same fashion as has Eastern over this period;
- ▶ an initial approach to strategy that was prescriptive, and remains largely prescriptive;
- ▶ a strategic focus which has remained principally upon the industry, as witnessed by its desire to be the 'best utility', reflecting its orientation to its environment rather than its resources;
- ▶ always been influenced strongly by the expectations of its owners, although its new owners have adopted a relatively 'hands off' approach. The industry, its leadership and the Regulator have all been crucial to the Company throughout the period since privatisation; and
- ▶ the Company was initially identified as a defender, although as the period has progressed it has been identified as an analyzer. Seeboard has never adopted an industry prospector role to any great extent.

The above conclusions were based upon a three phased analysis: factual data from published sources; factual data from company sources; and opinion data from published sources. In so doing, the author argues that the process of triangulation discussed in Section 3.2.2 has been fulfilled, and that the author possesses a high degree of confidence in the findings reported above.

10.2 Testing Propositions: Strategic Content and Combinations

This section continues the work of the legitimisation of Proposition's 1 to 5 as begun in

Section 9.2. These propositions sought to describe key characteristics of the strategies of companies in either regulated or recently liberalised industries, which would be developed for wider empirical testing in later research. The analysis throughout follows the framework established in Chapter Nine.

10.2.1 Legitimising Proposition 1

Proposition P1 stated that:

“companies will employ a limited concentrated growth approach in ongoing operations within their regulated businesses”

As was stated in the corresponding section of Chapter Nine, companies had very little option but to pursue a strategy of this kind in its continuing regulated activities, as “the infrastructure business is always going to have some form of regulation on it” (Seeboard, UK007, 1997). The effect of this regulation was to prescribe the strategy that the Company was to follow: “we have a twin approach: essentially focussed upon driving as much value as we can out of our existing businesses, primarily distribution...and having a very controlled approach to developments in other areas. Now, we believe that it is important to focus on the first one from the point of view that until we are running our core activities as efficiently and as effectively as we can then we are kidding ourselves that we can go into other areas and run those more effectively than they might be running at the moment” (Seeboard, UK007, 1997). He also noted in respect of distribution that the prevailing demands of regulation led to a strategy where “we have taken out large chunks (*of costs*). There is still more to come out, but inevitably there is a natural limit” (Seeboard, UK007, 1997).

Clearly, therefore, a concentrated growth approach. However, the then

went on to state that Seeboard was “looking at other activities....(*with the intention of*)....getting involved in those that either make use of our core skill’s and capabilities, or that add direct synergy’s to what we are already doing” (Seeboard, UK007, 1997). Within most of the RECs, this statement would be interpreted as being related to non-regulated activities. However, there is evidence that Seeboard has been one of the more enterprising RECs in relation to market development primarily within its regulated business. The Company has identified that among these core skills are its “network management skills, and capability in running distribution systems” (Seeboard, UK008, 1997) and a willingness to utilise them was shown by its winning of a contract to manage the distribution system for London Underground Ltd.

This represents an extended core concentrated growth approach, which despite showing a variation in the identified 'normal' behaviour within the industry, does not contradict Proposition 1. Evidence emerges from the interviews of an at the time novel strategy aimed at improving the effectiveness of the core distribution business further within the concentrated growth approach. The distribution business was, at around 1997, subject to re-structuring aimed at introducing a client-provider framework (Seeboard, UK010, 1997), similar to Miles and Snow's internal network concept (Miles and Snow, 1992). The potential for this process, of "devolving responsibility in decision making down into the organisation", was not seemingly promising in an organisation which, due to the nature of its role, did not generally allow for individual decision making. However, the potential for the creation of subsidiary activities, such as the "separation of metering as a separate product offering, and within metering data collection, data aggregation from meter operator services" and so on was being explored (Seeboard, UK010, 1997)². Proposition 1 is therefore supported, although Seeboard evidently employed a more advanced version of the approach.

10.2.2 Legitimising Proposition 2

Proposition P2 stated that:

"companies will seek to employ approaches to develop critical mass in most if not all of their continuing un-regulated businesses"

The desire to focus "upon driving as much value as we can out of our existing businesses" (Seeboard, UK008, 1997), was discussed in Section 10.2.1, and refers equally to Seeboard's non-regulated businesses. However the interviews demonstrate an interesting aspect of Seeboard's approach to supply in particular which was obviously a contentious, and revealing, issue at the time that the interviews occurred. The

described a scenario where the Company's initial approach to supply had been to aggressively, even recklessly, seek to create market power. This approach had created an entrepreneurial culture which condoned the pursuit of opportunity by supply managers, with the result that there had developed "a degree of conflict at that level (*of senior operational manager*) with some lack of coordination about priorities and objectives, some evidence of the trading people keeping finance at arms length" and so on with the result that "the operational staff that were running the processes were not really in tune with what was happening elsewhere" (Seeboard, UK011, 1997). The preferred

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The actions of the Regulator in seeking to separate metering from distribution companies, due to its potential to equate to an abuse of monopoly power, has forced the hands of many of the RECs in this area.

prescriptive approach had therefore been lost. The result was that a General Manager role was created, to oversee and control the activity of the separate functions within supply and to resolve the developing conflict. As the General Manager was a finance manager, this gave the accurate impression of a reigning in of the Company's market development activity in this area.

The interviews reveal that Seeboard was arguably a little behind the rest of the industry in establishing a coherent supply strategy. This, it was felt, was due to the 'sheltered' nature of its business, consisting as it did of a large number of mainly low demand domestic users, the liberalisation of whose market did not occur until 1997/98. The interviews as a whole did not reflect the pressing need for the development of critical mass, and this must be seen in part as a reflection of this initial lack of threat, and in part as a consequence of the timing of this set of interviews.

However, and despite concerns for commercial confidentiality, a senior manager did reveal the following about Seeboard's strategy: "Seeboard is taking a view, and that view is determined by a number of facts. Firstly, for example that ScottishPower has taken over Southern Water.....Southern Water covers a million of Seeboard's two million franchise customers. Also, in 1997, the Southern trials for gas take off, so that's nearly all of Seeboard's customers who will be targeted for gas, so you can see the risk there.....all of the RECs will be in there to get gas customers, and British Gas will try and retain them. Seeboard is out there now marketing gas to Seeboard customers. Obviously aimed at retention and expanding the business" (CSW, US002, 1996). The inference is clear. Seeboard feared a loss of custom from competitors who were already hovering predatorily over its territory. Its approach had to that date been defensive and its strategy, as the discussion in Section 10.2.3 will show, favoured an emphasis upon concepts supporting a concentrated growth approach. Seeboard's initial concern, therefore, was defending its territory rather than developing critical mass.

However, as acknowledged earlier, this view was expressed before the full impact of competition took hold. Moreover, as the analysis presented in Section 7.3.3 showed, the Company has maintained a closely controlled concentrated growth approach in its supply business, preferring risk averse approaches like membership of a variety of consortia, to attempting to develop critical mass. Proposition 2, therefore, is not strongly supported by the example of Seeboard, at least in relation to electricity. The Company appears to favour a more focussed approach, centred upon its own area and immediate surrounding areas rather than attempting to establish a nationwide presence. This also goes some way to explaining the restraint placed upon its market seeking activities, as described earlier.

It also suggests once again that the desire to generalise in respect of behaviour does require that the existence of unique characteristics needs to be accounted for which may weaken the ability to generalise. However, as Miller and Dess noted (1993), an awareness of possible deficiencies or 'trade offs' is crucial in any attempt to generalise behaviour. Within Seeboard, that unique characteristic is the composition of its supply business.

10.2.3 Legitimising Proposition 3

Proposition P3 stated that:

"the approaches mentioned in P2 will of necessity involve a combined price and non-price generic approach, so backing the arguments of a variety of authors against the conclusions of Porter (1980)"

Seeboard's focus upon becoming 'simply the best' utility investment relied very heavily upon the type of combined price and non-price utility (Chrisman *et al*, 1988) generic approach, described within the proposition. As part of this strategy, the Company identified three core areas: being the best at customer service; having the highest share price within the industry; and offering the lowest prices to customers (CSW, US002, 1996). These, at the time the interviews were conducted, were generally the positions the Company occupied³ in the respective performance tables.

The Company had clearly adopted the view early in its preparations for domestic competition, and probably as a reflection of their experiences in the commercial markets, that "people aren't buying on price anymore, they are buying on value, so best value is what you should look for, and that is what the customer will go for" (CSW, US002, 1996). Speculating on the future for the competitive supply market, the US manager argued that while there would inevitably be people choosing new suppliers, and a block who will never change, "there will be a block who become more sophisticated in their buying and that's where the multi-utility (*or dual fuel offering*) comes in. That's the product that Seeboard will be selling" (CSW, US002, 1996).

The structure that Seeboard developed was arguably less than conducive for a coordinated utility approach in supply. The Company had taken the view early in the new era that customer service would be a separate division, sitting alongside both the core distribution and supply businesses. However the devolution of such a vital role, especially in the

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There are different performance measures, and in a segmented industry, different tariffs offered, but overall the Company claimed these objectives were met (CSW, US002, 1996).

service dependent supply industry, to a third party creates the potential for logistical problems, especially if there is a breakdown in communication. One manager relates just such an instance: "as we come towards '98 we are having to ask ourselves again the question about the role of customer services, which is a semi-autonomous business with a rather vague relationship to distribution and supply, whose remit is effectively independently agreed by the executive, much as distribution and supply is. We on the supply side are saying 'well, hang on a minute, this appears to be quite an important part of our market offering and didn't we ought to have a bit more say in this?' and that doesn't necessarily mean control but it means more influence through more formal mechanisms than have currently existed. Whereas up 'till now, we have been the recipient of X% of their costs in return for which they have largely decided, within the broad framework their own operational policies. Timing of campaigns on direct debits has been a customer services activity and we have had the experience of them launching a campaign a matter of a week or two before we announced we had increased the level of direct debit discount, so we then had to scrap all the stationary, because it all said 'you can get £4 off your bill, and we knew we were about to announce we were putting it up to £8'. Conversely, of course, there are commercial opportunities for customer service as a true business, that we haven't exercised to date, and that may point one perhaps more towards the 'yes it is a separate business activity, but with a much more formal relationship', of service level and charging to its customers" (Seeboard, UK011, 1997). The final relationship was "being worked out as we speak" (Seeboard, UK010, 1997), was not determined prior to the conclusion of the interviews and hence can only be commented on with reference to Company publications.

The latest financial report (Seeboard, 1999, p.7-8) addresses the reorganisation of customer services, but not the relationship to the Company's other activities. However, as the function is reported separate to the other businesses, it may be reasonable to assume that the function's separate nature has been retained, and some form of formal understanding, or contractual relationship has been put into place. Despite this potential logistical handicap, the case study of Seeboard would appear to offer validation for the proposition.

10.2.4 Legitimising Proposition 4

Proposition P4 stated that:

"'new core' businesses will evolve incrementally as companies take on the responsibility for identifying viable concentric diversification"

The initial caution that Seeboard employed in relation to any form of diversification has already been discussed, and is summarised by this view from the

: “(*early in the period*) people wrote in saying ‘would you be interested in investing in XYZ?’, and I think initially we went off and started looking at a large range of them, but there was no sort of coordinated approach, so we said ‘hold on a moment. There needs to be some sort of focus’. So we only looked at things that were suitable. But compared to some companies...some of them deliberately set out to go into non-core areas very early on. And we as a company definitely decided that that was a wrong thing to do” (Seeboard, UK008, 1997).

Seeboard, in a move consistent with its cautious approach, established a body called the Corporate Strategy Directorate in 1989. Within this new directorate was a small team responsible for new business development. It was this team’s responsibility to: (a) identify possible areas of diversification/investment; and (b) make a business case for that investment. The perspective of Seeboard in relation to investment in generation at the time was described as follows: “we firstly wanted to know before we made an investment (*in generation*), would it make sense from a power purchasing point of view, because all of the new REC stations involved a long term contract to buy (from the new plant). That, from our perspective, had to make sense from the perspective of our purchasing portfolio: did a long term contract at that sort of price make sense? If it did, are we going to make an adequate return on the investment? And so on. The approach was driven from this perspective” (Seeboard, UK007, 1997). He adds that “we eventually did go ahead with a station, and it was driven from that perspective rather than the ‘investment opportunity’ approach adopted by some of the others” (Seeboard, UK007, 1997). This suggests that within Seeboard Proposition 4 is valid, at least in relation to the new core generation business, but that the motivation for the investment was in support of its core concentrated growth approach in supply rather than the simple establishment of a ‘new core’ activity.

The Company’s approach to the ‘new core’ gas market appears to have been relatively similar, and again based upon driving their existing business harder, and finding a means of exploiting their core skills and capabilities: “we started looking at gas, because selling gas is very similar to selling electricity, and with the break up of British Gas in the early 1990’s, there was now an opportunity emerging, and we put our toe in the water in early 1993 to exploit the opportunities that were arising in the industrial market” (Seeboard, UK007, 1997). This new venture was undertaken through a joint venture with US gas company Utilicorp, a further indication of the Company’s innate caution.

Seeboard's current involvement in gas is through a company called Beacon Gas, a venture jointly owned with Amoco. Within this venture, Amoco provides the gas and Seeboard the market expertise and customer service skills. These examples from Seeboard therefore provide very strong support for Proposition 4, and especially so in relation to gas which has clearly become a core business area for the Company. The extent of the growth of both areas and assimilation into Seeboard was made clear in Figure 7.4, of Section 7.3.

10.2.5 Legitimising Proposition 5

Proposition P5 stated that:

“companies will inevitably seek consolidation, either vertically or horizontally, regardless of the regulatory regime within the industry, supporting the work of Helm and Jenkinson (1997)”

This review of Seeboard has shown that while confidence in the validity of Proposition's 1 to 5 remains high, there are some areas where variations can be observed. One of these is in relation to Proposition 5. The analysis presented in Section 7.3 showed that Seeboard had not engaged as intensely in consolidation activity in any of its core businesses as had other RECs, although an exception can be identified in relation to the backward vertical integration by joint venture implied by its entry into the generation and gas industries. Other subsidiary ventures in appliance retail and contracting had seen horizontal integration, but the large scale integrations witnessed in other REC's core businesses has not been seen.

The relationship between any investment in generation and the Company's ongoing business has been demonstrated in Section 10.2.4, and clearly shows a decision based upon backward integration. However, in comparison with other REC's activities in this area, it is severely limited and it would be hard to qualify it as consolidation. Similarly, as Section 10.2.2 has demonstrated, the Company has sought to defend its existing supply base, rather than engage in the consolidation that is increasingly the mark of this sector of the industry (James *et al*, 2001). In the case of Seeboard, therefore, Proposition 5 is not supported. However, the author suggests that in much the same way that continued independence proved untenable in the long run following a paradigm shift, so failure to consolidate may also prove similarly untenable following a further paradigm shift. That is to argue that the increased maturity of the supply industry makes it increasingly non-viable for companies lacking critical mass, or vertical or horizontal consolidation.

10.2.6 Commentary

Overall, therefore, this examination of Proposition's 1 to 5 based upon evidence gathered

from in-depth interviews with senior managers of Seeboard would seem to support the conclusions reached earlier but not with the same degree of confidence in all aspects of the analysis as the author would have predicted. In much the same way as the preceding Eastern case study was pushing at the boundaries of the general conclusions, so the findings of the Seeboard case also push at the boundaries, albeit in the opposite direction. That is, while Eastern appeared to be moving to the next stage of the evolution of strategy within the industry, so Seeboard has yet to fully arrive at this stage. In particular this is true of its approach to questions of consolidation, and the achievement of critical mass, both of which the author identified as distinguishing components of one of the REC archetype strategies which emerged at the end of the analysis in Chapter Eight. This perhaps reflects the difference between an integrated energy company by organic growth (Seeboard) and an integrated energy company by acquisition (Eastern) as defined in Section 8.4.1.

Once again, the proposition's can be seen to reflect their nature as synthesis of the behaviour of the various companies within the industry which do not necessarily reflect the experience of any one company entirely. It also indicates that even at a stage in the development of the industry where commonality was perceived to be greater than at any time since privatisation, as discussed in Section 8.4.1, differences of approach are still evident.

10.3 Testing Propositions: Strategic Drivers

In pursuit of a resolution of Objective Two of this research, a series of observations with respect to strategic drivers evident within the sample was presented in Section 8.2. Once again, the author acknowledges that the identification of patterns of behaviour presented in Chapter Eight, and derived from textual data, can not be said to with a high enough confidence factor to accurately reflect the relative importance of the five differing sources of influence on the strategy process identified during the research. Section 8.2.4 set out, therefore, to establish a set of propositions which sought to describe the relative influence of each driver of strategy among companies in either regulated or recently liberalised industries.

10.3.1 Legitimising Proposition 6

Proposition P6 stated:

“that the influence of an industry regulator upon a company's strategy will depend upon the relative proportion of its profits generated from regulated activities”

Seeboard has always, if the testimony of the managers interviewed is an accurate indication, been an organisation wary of offending the Regulator. There was throughout the interviews a clear feeling that the Regulator, if provoked, could harm the objectives of a company, and that "in many respects they are more powerful than we (*the RECs in general*) are" (CSW, US002, 1996). Hence, Seeboard has always sought to constructively co-exist with the Regulator, and seek to work as closely as possible with him. This concern perhaps reflects the priorities of an organisation which for most of its life has relied predominantly upon the profits of its regulated business, over which the Regulator has much greater influence.

The extent of this desire to co-exist with the Regulator is further demonstrated by the following statement with respect to the 'Seeboard ethic', a wider concept reflecting the Company's desire to acknowledge all of the stakeholders in its operational environment: "the Seeboard ethic is to consult with the customer, consult with the Regulator, to work with these organisations rather than against them, and actually try...to gain competitive advantage by setting and agreeing ground rules. There are those who did exactly the opposite, and flew in the face of the Regulator. They will lose" (CSW, US002, 1996). The theme of dialogue reflecting the importance of the Regulator is again addressed in these comments, with respect to the need to understand the new drive for efficiency and effectiveness in distribution: "we needed to see what in our view was the scope for improving efficiency...because unless we knew that ourselves it would be very difficult to have a sensible debate with the Regulator" (Seeboard, UK008, 1997).

The importance of meeting the needs of the Regulator is demonstrated by the evocative language used in the following statement: "when the Regulator did his review of economic purchasing, we were able to demonstrate to him that before we signed that long term contract we had looked at alternatives, and we had had discussions with generators. And we were able to furnish him with information on that, and to demonstrate that we had satisfied our economic purchasing obligations" (Seeboard, UK007, 1997). The impression given by interviewee's is of an organisation which pays great heed to the views of the Regulator, and identifies an obligation to perform well against all of the performance criteria the Regulator establishes.

The Regulator is clearly an important driver of Seeboard's strategy. As the Company has limited non-regulated earnings, the importance of regulated earnings are consequently greater, and therefore confidence in the Proposition is found to be legitimate in this case. However, a deeper confidence will only come as a result of a comparison with the other factors influencing Company policy.

10.3.2 Legitimising Proposition 7

Proposition P7 stated:

“that companies pursuing a strategy across a range of sectors will be subject to influences from a variety of different drivers, but that the extent of the influence each exerts will be situational”

Seeboard began the new era as a highly conservative company, suggesting that some of the drivers had a proportionately much greater impact upon its strategy than others at this early stage. A senior Seeboard manager attributes the initial conservative approach to the views of the first Chairman: “He (*Squair*) had been brought up in the industry and felt that we didn’t want to go head long into new activities, and we certainly needed a period of consolidation to get to grips with being a plc” (Seeboard, UK008, 1997). Initially, therefore, the Company concentrated upon what it knew best although it is arguable if this decision had been fully rationalised within the Company. In this early period, the Company also had to get to grips with the City whose impact could be ambiguous and confusing. The same manager remembered that “we had to deal with the City, and all these analysts, and all these people out there who seemed to want to know what we were doing, and wanting to understand where we wanted to take the business. We’d never had to deal with this before, and therefore having to put together presentations for the City, and to think through the company approach, rationalise and explain it to all these outsiders was all very new, and I think looking back we tended to listen too much to the City...because we were still learning... because they tended to have a particular view at any one time of what companies ought to be doing, and then six months later they might have a different view” (Seeboard, UK007, 1997).

The combination of leadership, and the expectations of the City were to prove crucial to Seeboard. The key advance made by leadership came early in the period, and represented an ‘awakening’ as to the implications of the change through which they had lived. The managers of Seeboard had initially expected that the new industry would be as predictable as the old ESI. They had a “naïve expectation that after a couple of years things will start to settle down” and that they could start planning for the future (Seeboard, UK007, 1997). However, this was not the case. “I think around 1992, about a year and a half to two years in, we started to realise that not only wasn’t the external environment going to settle down, but in fact things were becoming increasingly uncertain. As we were about to enter the first of numerable price reviews by the Regulator, we needed to have a much better focus of the Company and where it was going” (Seeboard, UK008, 1997). This need was compounded by the fact that Seeboard was not highly rated by the City at that time. Management’s realisation of the impact of change, plus a rising awareness of the

need to appease the City shaped the Company's approach.

This change in Seeboard's approach, or more accurately the greater focus placed upon core businesses, coincided with the retirement of Squair, and his replacement as CEO by Ellis. His responsibility was effectively to provide direction and vision, where previously it had been lacking. This change in leadership and approach marks the replacement of a more intuitive conservative strategic approach, with a more rationalised corporate strategic approach. Ellis initiated a review of operations to assess what change was necessary and why, and resulted ultimately in a new structure and new business strategy. An interviewee noted that although Ellis could have imposed a new structure and new approach he chose to conduct a review, which was inclusive, and which was aimed at reassuring all stakeholders in the Company that the agreed changes were rational and well thought through (Seeboard, UK007, 1997). The change resulted in the establishment of three separate businesses, and the development of the client provider relationship, or internal network, to encourage greater entrepreneurial spirit among the companies.

This review of the interviews with senior managers suggests that of the various influences shaping Seeboard's strategy external factors have been important, but that the role of company managers has been even more so. It is also clear from the interviews that the Company believed that the City of London was subject to marked fluctuations in what was considered appropriate behaviour among the companies of the industry. While Seeboard was influenced by the market early on, the initial impetus for the re-focussing which occurred in 1993 came from internal sources, and in particular from senior managers' growing understanding of the direction that the industry was moving in. After taking what they considered the appropriate decisions, and establishing a set of guiding principles and objectives early in the new era, the Company has not varied far over the intervening period, despite being taken over. This suggests that the key to external pressure is not a RECs size but rather its confidence in its decision making, and the 'success' of the chosen approach. If the City has confidence in a company, it may not seek to affect its progress, and if an approach is perceived as being successful - even if it does not conform to the developing trends within the industry - then managers will have the strength of conviction to push on.

The impact of resources on strategy appears to be that of an influence, albeit only with a limited range. Earlier, the Company's desire to exploit its core capabilities was identified, but its definition of what it was capable of doing was rather limited, and focussed primarily upon the core distribution business, or "which added direct synergies to what we are already doing" (Seeboard, UK007, 1997). Resources are therefore clearly of some

importance, although with leadership lacking a desire to seek to deploy them widely, it is possible to argue that their influence was more that of constraint upon, than driver of, strategy.

Seaboard presents a contrasting case to that of Eastern, in that its strategy has intentionally been much less expansive and its interaction with its strategic drivers somewhat different. The case does demonstrate that there will be an hierarchy among influences, and the structure of that hierarchy will be situational. Seaboard was subject to the influences of the same set of drivers, but its response was largely different to that of Eastern. In particular in relation to its internal drivers, Seaboard appears to have been constrained whereas Eastern has been empowered, by the potential offered by its resource base. This case therefore offers support for Proposition 7.

10.3.3 Legitimising Proposition 8

Proposition P8 stated:

“that organisational size will be a key factor in an organisation’s management of its relationship with strategic drivers”

As referred to above, Seaboard presents a quite different case to that of Eastern presented in Chapter Nine. It has clearly sought to operate a less ambitious approach within the industry, and so arguably possesses less market power. This may a product of its lesser organisational size, although making such an assertion would require confirmatory evidence. What is clear is that external and regulatory influences play a greater role in determining its strategy, as suggested by the analysis accompanying Proposition 6 noted. The debate perhaps centres upon a question of perception: to what extent is a company able to control external influences, and indeed can it be necessarily assumed that allowing external forces to drive strategy is a good or a bad thing? Seaboard has reacted to certain external influences, but not others. While it has not reacted to defuse the bargaining power of suppliers in the same way as Eastern, for example; as it has not developed extensive backwardly integrative assets, it has played close attention to the bargaining power of customers, in its drive to become the ‘best’ utility. Similarly, and despite the Company’s claim that it paid relatively little attention to the actions of its competitors (Seaboard, UK007, 1997), the actions of developing its ‘simply the best’ strategy could not have been undertaken in isolation, as being the best relies upon a judgement relative to other companies.

Overall, therefore, this proposition is supported but is principally a factor of the nature of the Company’s relationship with the Regulator. The reliance upon regulated earnings, and

the need to develop competitive earnings streams to reduce this reliance, meant that Seeboard's focus was largely external and was a product of the configuration of their revenue streams, which can be portrayed as relative 'market weakness'. However, as consideration of the next proposition shows, much of Seeboard's strategic direction and processes emerged largely as a result of the influence of internal factors, which is reflective of organisational size.

10.3.4 Legitimising Proposition 9

Proposition P9 stated:

"that companies will seek to develop greater control over the impact of strategic drivers by developing key internal capabilities to achieve sustainable competitive advantage"

The interviews revealed that internal forces were integral in shaping its competitive approach, and that the Company was keen to develop capabilities that would lead to competitive advantage. In particular this refers to the development of a concept that the Company described as 'the client provider contract model'. This model originated within Seeboard's retail operations, but has most prominently been utilised within its networks business. Testimony from interviewee's suggest that the restructuring and strategic development of the Company's retail business was actively identified as a test case for the Company as a whole (Seeboard, UK010, 1997) and effectively led future change. In this model, the client runs the assets of the Company, and receives a service from the provider, who initially would also be expected to be within the Company. However, the interviewees speculated that this approach would eventually develop to include the potential for external suppliers to bid for contracts under this sort of relationship. In the future, therefore, parts of the Company may lose contracts to cheaper or better quality external bodies. This would mark the planned evolution from an internal network organisation, to a dynamic network organisation as envisaged by Miles and Snow (1992, and Section 2.4.2). As part of this arrangement, the client specifies what they expect from the provider which become the effective quality standard within the transaction. This in effect mimics a 'real' market transaction and, it is hoped, introduces market rigour to internal transactions with the result that performance is enhanced (Seeboard, UK007, 1997).

The concept's aim was therefore a solution to the need, identified by senior managers, to "get a grip on what the business was all about, what it was there for, what it was actually contributing, what its purpose was in terms of supporting Seeboard's overall corporate objectives" (Seeboard, UK010, 1997). The model developed out of a thrust to shift the

responsibility for decision making away from the corporate apex, down into the functional core of the business. The philosophy and model have been applied across the whole organisation. However, applying the model in distribution has proved to be more difficult than, for example, in supply. Supply, like retail, is very obviously a commercial activity, while distribution is not. However, aspects of the distribution business have been susceptible to change, and the establishment of particular product offerings has proven possible. These have included "separation of metering as a separate product offering, and within metering data collection, and data aggregation from meter operator services" and so on mentioned earlier (Seeboard, UK010, 1997). The process itself produced more than just a model, as other benefits developed alongside. Among these positive side effect were that the process pointed the way towards ever increasing commercial freedom, and organisational accountability.

Another benefit following this process was the creation of 'business awareness' among smaller operational units within the Group. Units tendering for Seeboard contracts may find that they can also tender for non-Seeboard contracts, and thus generate unrelated income from other customers which will benefit the Group as a whole. The model therefore offers both internal cost effectiveness and the potential for external profit generation through the transferability of existing skills and competencies. Such units would therefore "become almost small businesses in their own right" (Seeboard, UK007, 1997). In distribution, if this approach was thought successful, the result could be that the Company would just be the owner of the long life assets and small service providers would support that operation in areas such as building and maintaining the network and so on. Consequently, this approach is akin to a resource based view of how a Company may exploit its capabilities outside of their normal operational envelope.

The concept was initially developed within appliance retail. The success identified here was further applied to electrical contracting, as the Company launched its Business Group division in 1993-94. Following this further testing of the concept, the idea was rolled out in the core distribution and supply companies (Seeboard, UK010, 1997). During the interviews conducted for this research, a consensus developed that the introduction of the concept of financial accountability was the most crucial spin-off of the whole process (Seeboard, UK011, 1997). The whole process also reinforced the corporate identity of each business, so for instance people felt that they worked for Seeboard Retail, rather than Seeboard *per se*. This was vital, it was argued, as without this *micro* level identification, people could not identify their actions with the overall performance of the Company. The development and testing of the model initially in retail enabled a higher acceptance level when rolled out in other parts of the business, leading to a relatively smooth introduction:

“people could see the point of what was happening, could see the model, and say ‘OK, I can see why we are doing this’” (Seeboard, UK011, 1997).

The core thrust of Proposition 9 is therefore supportable, but it should be noted that this effort to develop core capabilities must be viewed alongside the general conclusions that the Company was heavily influenced by external factors. The development of core capabilities in this way therefore arguably reflects a response to the impact of external drivers: as in ‘we must locate ways in which our various operations maximise their revenue generating capacity in order to offset the increasing demands placed upon us by external factors’. Developing unique internal capabilities to achieve competitive advantage may be portrayed as a means by which a company can overcome the presumed advantages that organisational size conveys upon an organisation.

10.3.5 Legitimising Proposition 10

Proposition P10 stated:

“that ownership is the key influence over strategy”

The core focus approach that Seeboard pursued after 1992 was identified as one of the key reasons the US utility CSW bought the Company. The similarity of operating objectives has also influenced the relationship between owner and subsidiary. Because CSW was also a company with a core focus, and because of the trust and understanding which developed between the two companies at the time of the takeover, CSW felt able to take a very ‘hands off’ approach in terms of the day-to-day management of the Company. Their relationship sees CSW agree Seeboard’s overall plans, including performance targets and capital expenditure, and letting the existing management get on with implementation (CSW, US002, 1996). Their view was that they (CSW) did not know how to run a REC, whereas the UK managers did, so why change a working scenario? In the view of the US manager, Seeboard had continued to improve under CSW’s ownership (CSW, US002, 1996), but that the relationship was cooperative rather than dictatorial.

A senior Seeboard manager identified three main reasons why the takeover had occurred. These were, he felt, that:

- ▶ the ESI offered better returns for the money invested than a similar investment in the US industry;
- ▶ the ESI offered a learning opportunity and exposure to new market conditions; and
- ▶ that the ESI was a good base from which to springboard international

developments (Seeboard, UK007, 1997).

Of these, however, the first has been widely agreed to have been the underpinning consideration. It is possible to argue, therefore, that in comparison with other RECs, the decision made by CSW to invest in Seeboard conforms very closely to the concept of an 'arms length' strategic asset seeking investment, as discussed in Section 8.3. As such the owners influence is inevitably tangible, but not as overt as in other instances. The leaders of the Company are empowered by the support they receive from the owners, who also determine what 'success' means in the Company's terms. Should the existing leadership begin to fail to meet their objectives, then the balance may shift. As has been noted, this set of interview data addresses a period of Seeboard's existence between 1996-1998, and it can not be argued conclusively that the views developed here are still an accurate picture of the situation within the Company today. However, the fact that Ellis remains the CEO of Seeboard, and as discussed in Section 7.3.2, has done so since 1992, it would suggest that little change of any great substance has occurred during the intervening period in respect of CSW's concern for driving Seeboard's strategy. In this instance, at least, Proposition 10 is not fully supportable, and suggests that the influence of ownership is at least situational.

10.3.6 Commentary

This examination of the strategic drivers influencing Seeboard clearly identify the Company as being subject to a distinctly different configuration of influence when compared to Eastern in the preceding case study. Whereas Eastern's strategy was a product primarily of internal factors: of leadership and resources, Seeboard's strategy appears to be a product of all of the factors identified in Section 8.2.3. External factors like the Regulator and the actions in particular of competitors, and the demands of suppliers and customers impact upon the Company, as does its leadership and its resource base. An argument can also be made for the influence of the owners, but this is less pronounced. It is possible, therefore, that a pattern is emerging, and it is related to a concept that may be determined as 'market strength'. This pattern; of strong companies being driven predominantly by internal factors and middle ranking companies like Seeboard being driven by a combination of factors, would be completed if smaller companies, such as SWEB, were more influenced by external factors, and will be discussed in Chapter Eleven.

10.4 Validity of Classification

In Section 8.3, a series of classifications were presented based upon the analysis

undertaken for each of the Company's in Chapter's Five to Seven, and Chapter Eight. This section aims to consider the classification arrived at for Seeboard, and to consider what the judgement reached in this case can tell about the wider validity of the classification system proposed by Miles and Snow (1978), in a regulated environment.

10.4.1 Validity of Classification of Seeboard

In Table 8.9 of Section 8.3, the following classification's were made in relation to Seeboard:

- ▶ that it was an integrated energy company by organic growth, utilising an utility approach in competitive markets;
- ▶ that it employed Variant 1 in its distribution business, and Variant 5A in its supply business;
- ▶ that the key influences over its strategy making were a combination of external, internal, leadership, regulatory and ownership factors;
- ▶ that the owner was pursuing 'arms length' strategic asset seeking investment; and that Seeboard was in consequence an analyzer, using the Miles and Snow typology.

The assessment of Seeboard as an analyzer, defined in Section 2.5.6.2.3, argues that it is possesses the same characteristics as Eastern. However, the preceding analysis argued that they were essentially different types of organisation. How accurate, therefore, is this classification? The first point to make concerns Eastern Group's classification as an analyzer, which was cast in some doubt by the analysis in Section 9.4.1. If correct, this would explain any difference between the companies.

A second point concerns the nature of the analysis presented by Miles and Snow, and its relationship in general to companies of the ESI. If for example a REC is involved in both distribution and supply, it is automatically identified as an analyzer, as one of these industries requires a company to defend while another generally requires it to seek new product and market opportunities. This explains this decision on the labelling of Seeboard. If however the view adopted of Miles and Snow's work is that each separate organisation within a group is to be judged in terms of classification, then a different picture emerges. It is entirely possible for a company therefore to be both a defender in distribution, and a defender in supply: the example of Manweb (Section 5.1), or London before its takeover by EdF (Section 7.2) come to mind. Arguably, Seeboard may also fit this profile.

However, and despite this final observation about the possibility of identifying Seeboard's supply business as being a defender, the author adopts the view that the original

classification of Seeboard as an analyzer is appropriate. The activity of Beacon Gas, Seeboard's gas supply subsidiary, is not that of a defender and so the author believes that Seeboard's approach in supply is that of an analyzer. The Miles and Snow model, therefore, holds in relation to the example of Seeboard. Caution should, however, be placed upon a simple use of the typology assuming that the REC environment is an homogeneous one. Clearly, in any analysis of the appropriate nature of the model, a distinction must be drawn between distribution, and supply, and hence two classifications are required for those RECs remaining within both of these industries.

10.5 Other Key Issues

This section continues the work begun in Section 9.5 in examining the variety of other key issues identified throughout this research, but which have not been the core focus of attention. The first of these considers what the case of Seeboard can contribute to the debate on the differing concepts of the firm.

10.5.1 Competitive Forces versus the Resource Based View

The author believes that throughout this case study of Seeboard, there has been clear evidence that the Company has adopted a predominantly competitive forces approach, by orienting itself and its strategic outlook to its industry, and pursuing what could be identified as relatively predictable traditional strategies, that did not take into account the potential advantages of its unique capabilities. However, this view should be qualified with reference to some of Seeboard's actions to: (a) exploit its distinctive competencies; and (b) develop distinctive competencies to enhance its ability to achieve superior performance.

The references to 'core skills', and the desire to exploit these core skills for competitive advantage runs throughout the interviews (Seeboard, UK007, 1997). In particular, the ability to operate network systems is identified as a key resource, and enabled the Company to win a contract to manage the distribution network and supply for the London Underground. In addition, the emphasis placed upon establishing the 'client provider' model (Seeboard, UK007, 1997, Seeboard, UK010, 1997) identifies a internal process which the Company believed could be turned into a core competence and used to encourage superior performance.

These moves clearly show an awareness of the benefits the exploitation of distinctive competencies can have on organisational performance. However, it would be difficult to argue that Seeboard adhered to the same 'joined up' approach as Eastern. In the case of

Seeboard, resources appear to have acted more as a constraint, rather than as an enabler, of business opportunity. Seeboard, as the above analysis showed, took the view that its resources were better suited when focussed upon related businesses. They were learning from the experiences of companies like EME, which had adopted a much wider perspective and had been 'punished' by poor performance as a consequence. However, the Company had not, certainly at the time of the interviews, taken on board the view championed by Eastern that resources could be enabler's if focussed upon clearly related market development or diversification activities. A final point that needs to be made here is, however, that the very considerable differences in the magnitude of resources held by Eastern and Seeboard, especially following the former's takeovers by Hanson and TXU, may explain the difference. Eastern may simply have done more with its resources because it possessed a stronger resource base.

10.5.2 The Impact of Process

In some respects, the case of Seeboard mirrors that of Eastern presented in the preceding chapter. But there is an initially distinct starting point. Whereas Eastern appears to have had, more or less, a prescriptive approach to strategy from the outset, Seeboard appears not to have possessed a cogent strategy for up to three years after privatisation. After that time there is greater similarity, as:

- firstly, strategies have tended to become more emergent over time; and
- secondly, that there would appear to be different approaches at work in different parts of the organisation.

The first point to make in relation to this issue is that there is some evidence to suggest that Seeboard's strategic approach was arguably neither prescriptive nor emergent at the beginning of the period. Interviewees describe the creation of a department called the Corporate Strategy Directorate (CSD), which was established in recognition that strategy was now an important aspect of the Company's new incarnation as a *plc*. However, having established the CSD, the Company were clearly unsure of the role that it was to perform. One manager commented that "I think one of the reasons for establishing the CSD was because there was an ex-Electricity Council director who was looking for a job, whose previous responsibilities had been in energy forecasting.....not typical strategy but in that sort of area and I think....the way in which the CSD was formed and the responsibilities it held was partly a result of someone saying 'well, we've got quite a good guy, can we give him a portfolio that will fit his skills?'" (Seeboard, UK008, 1997).

The development of the CSD was therefore partly circumstance and partly need (Seeboard, UK008, 1997). It set out to manage issues like strategic forecasting,

electricity forecasting, corporate planning, the overall strategy process, and business development. However, the managers interviewed appear to indicate that this process was not systematic, and this in part reflected the innate conservatism of the original Chairman "who was brought up in the industry and felt that we didn't want to go headlong into new activities, and believed we needed a period of consolidation to get to grips with being a *plc*" (Seeboard, UK008, 1997). As such, radical action in the strategic area was not a priority, and a period of 'strategic drift' appears to have occurred. This was not evidence of an emergent strategy but rather of the absence of strategy.

This situation changed when a new CEO took over in 1992, when the Company undertook a form of turnaround following a series of realisations about the nature of the new operating environment: "we started to realise not only that the external environment wasn't going to settle down, but in fact things were becoming increasingly uncertain.....we needed to start to have a much better focus on the company" (Seeboard, UK008, 1997). The new CEO set out to achieve two objectives: to fundamentally reevaluate the structure of the Company; and to try and develop an overall mission, some objectives and a clear strategy for the Company (Seeboard, UK008, 1997). This he set out to do by initiating a series of consultative meetings among senior executives.

The result of these consultations was the mission of becoming 'simply the best' utility described above. The structural and cultural changes put into action have also been described with reference to the 'client-provider' concept which began to pervade all of the operations of the Company. In this way, a more emergent 'strategy as pattern' approach can be seen to have developed, even within the monopoly distribution business, although as preceding sections have shown, the extent to which this objective can be achieved in such industries is limited. Seeboard, therefore presents an example at some variance with that of the preceding case study, but primarily this variance is due to: (a) a slower realisation of the need for a realistic and responsive strategy; and (b) the degree to which an emergent strategy has been allowed to develop. The author believes that the evidence presented in the last two chapters show Eastern as an organisation where more managerial autonomy has been provided within the 'strategic pattern', and hence suggests a more entrepreneurial culture.

10.5.3 Strategy Making at Different Levels

The discussion of the 'client provider' model in Section 10.3.4 demonstrates the extent to which strategy making occurs at different levels of the organisation, and provides further support for the views of Buzzell and Gale (1987). In essence, the concept of the 'client-provider' model requires each separate part of the business to be viewed as a cost

centre, and to transact with other costs centres on a commercial basis. Initially, this transaction would have been of a surrogate nature, a theoretical commercial transaction. However, the intention of the developers of the model and of the leaders of the organisation was that after the model had been bedded down, the transactions would become actual, rather than theoretical. In such a way a strategic vision would be established at the corporate level, and the details of how that vision is achieved would be left to business level and operational managers. This issue will be returned to when the question of structure is addressed in Section 10.5.5.

10.5.4 Leadership

As with the preceding chapter, different leadership styles appear to have been evident within Seeboard over this time period. The preceding section described the initial period of drift that the Company experienced following privatisation. It is clear from the comments of interviewee's that during this period the existing 'transactional' style of leadership which dominated the pre-privatised days was in place. The emphasis was clearly on a command and control, hierarchically oriented managerial structure where responsibility resided in the senior managers: "it was probably true to say that the only person who was responsible for the bottom line figure was the Chief Executive. Because it was functional" (Seeboard, UK011, 1997). The Company had its engineers, its commercial people, its accountants, its personnel managers, and they all only saw their own function and did not appreciate the wider picture, reflecting "an inherited attitude of parochialism" (Seeboard, UK011, 1997). This is clearly evident of a 'box approach' (Farkus and Wetlaufer, 1996) to leadership where functions were strictly controlled, and the organisation operated with all of the potentially debilitating characteristics of a Mintzberg's (1996b) machine organisation.

The turnaround in 1992-1993 brought about a change in attitude, prompted by and reflected in the development of a more transformational approach to leadership. This change was prompted by the introduction of the 'client provider' model which enabled the leaders of the organisation to delegate responsibility, but at the same time provide the necessary guidance to prevent business level managers from straying too far from organisational goals. As the analysis presented in Section 10.2.2 showed, Seeboard did not want to allow too entrepreneurial an environment to develop and hence the model applied was seen to be proportionate. It is clear that all of the issues addressed here: exploitation of key assets, delegation of autonomy in decision making, a more emergent strategy process, the development of transformational leadership, and the altered structural configuration to be discussed in Section 10.5.5, are all very closely interlinked.

10.5.5 The Impact of Structure

Section 7.3.2 commented upon the opening structure of Seeboard, and observed that it had been criticised for being neither an effective functional structure, nor an effective divisional structure, based as it was upon geographical divisions rather than product divisions. As analysis presented throughout Chapter's Five to Eight suggest, the consensus within the industry was strongly suggestive of the need for product based divisions in recognition of the very real differences in the needs of the core businesses within the group. Companies, like SWEB (Section 6.4) and Yorkshire (Section 5.4), acted early in the period to improve their structural alignment, but Seeboard were one of the last to make this connection and to move away from an organisational structure that was functional in its management hierarchy and geographical in its operational configuration. An comment made by the shows, firstly how far Seeboard were lagging behind industry thinking on structure, and secondly that structure was indeed following strategy rather than emerging with it at this stage in the development of the Company: "regulation gave us the stimulus to do that (*split the distribution and supply businesses*), because although I think on day one perhaps we regarded the distribution and supply split as somewhat artificial. The supply business only really came into full existence in 1994 when the market started to open up much more to competition. Actually, the more we began to work within it (*the split*), the more it began to make sense to us" (Seeboard, UK011, 1997). This is a full four years after SWEB and Yorkshire formally divided their core businesses, taking the Regulator's requirement for separate reporting of the businesses as an indication that the businesses should therefore be formally split.

The Company clearly prospered from the division as loyalty to SBU began to develop over loyalty to Group: "undoubtedly the people at the office at Portland Road (*where Seeboard Supply is based*) regarded themselves as working for the supply business, and there is a strong sense in which they regard success or failure as relating to supply, not Seeboard. They probably have no idea how much profit distribution makes. But they know how much profit supply makes, and they get the message time and again that 'that's important', and I don't think you can do that in an amorphous organisation like we had before. It just doesn't work" (Seeboard, UK011, 1997). Seeboard's divisional structure therefore offered the Company a more responsive framework within which to conduct business, and an identity for its workers. Clearly, the client-provider model that has been discussed on several occasions throughout this chapter extends the concept, and identifies Seeboard as an organisation where structure is increasingly emerging alongside strategy. When all of these concepts are linked together, it presents a picture of an organisation which has moved a considerable distance from its original functional, hierarchical,

transactional origins.

10.6 Concluding Remarks

As with the preceding chapter, this case study of Seeboard was intended to continue the process of verification of the ten propositions developed during the preliminary stage of this research. On so doing, Objective's One, Two and Four of this research were to be addressed, and some headway gained in relation to Objective Three. Additionally, other relevant commentary was to be provided and conclusions drawn.

The summary of the progress made in respect to Propositions 1 to 10 will be presented in Chapter Twelve, but at this point it is possible to say that:

- ▶ in general, the case study provides support and legitimation for all of Proposition's 1 to 5 but that this support is more qualified than that offered by Chapter Nine. In some areas, Seeboard can be seen to be operating differently to the industry norm; but that
- ▶ while some support for proposition's 6 to 10 is also provided, the degree of this support is not as conclusive as for Proposition's 1 to 5, and the author wishes to reappraise the content of these proposition's in Chapter Twelve.

The support, or otherwise, for Proposition's 1 to 10 represents the confidence currently held in the observations made thus far in respect of Objectives One and Two. Concern was also expressed with respect to observation's made in relation to Objective Three, which will also be discussed in Chapter Twelve.

Finally, and as with Chapter Nine, the chapter enables a further opportunity to comment upon Miller's 'organizing themes' (Miller, 1996). This case study has identified a possible theme, related to the relationship between 'market power' and the importance of influences. Noting the relationship evident in Chapter Nine: a 'strong' company being influenced by mainly internal factors, this chapter has suggested that medium ranked companies may be influenced fairly evenly by all of the possible factors. By extrapolation, therefore, nominally weaker companies will be more clearly influenced by predominantly external factors. This final aspect of the potential organising theme will be addressed in Chapter Eleven.

Chapter Eleven Case Study of Western Power Distribution

**formerly South West Electricity, wholly owned subsidiary of
the Southern Company and the Pennsylvania Power and
Light Corporation**

11.0 Introduction

The aim of this chapter is to continue and conclude the investigation into the content and drivers of strategy, following on from the analysis presented in Chapter Eight. This chapter is the final of three chapter's presenting case studies based upon in-depth interviews conducted with a representative sample of the RECs. Once again, the core focus of this chapter are the ten tentative propositions identified in Chapter Eight: five in relation to strategy content, five in relation to strategy drivers, and the aim is either to verify or falsify these propositions, and amend as necessary. The chapter also presents other data of relevance and interest to other aims of this research, and also addresses the question of classification in advance of the discussion in Chapter Twelve.

As with the preceding chapter, this case study does not feature an extensive biographical section on SWEB¹, as that function has been performed in the separate case study of the Company presented in Section 6.4, which readers are referred back to. That case study presented:

- ▶ detail of SWEB's operational area under the 1989 Electricity Act;
- ▶ the major strategic developments within the Company between 1990 and 2000;
- ▶ the major managerial and structural changes that occurred within the Company during this period; and
- ▶ an assessment of the aims, objectives and causes of the specific strategies pursued during this time, although this latter aspect of Section 6.4 will be reviewed in Section 11.1 of this case study.

The analysis and assessment of strategy in relation to SWEB, in Chapter's Six and Eight, was derived from information provided by existing published sources. The extended analysis and verification of the observations and propositions to be undertaken within this chapter have been derived from a short series of in-depth interviews with managers both

1

SWEB, or South Western Electricity, changed its name to Western Power Distribution (WPD) in 1999. References to the Company before 1999 therefore title it SWEB, and after 1999, WPD.

inside SWEB, and within the wider energy industry. A list of all of the primary source interviews conducted in conjunction with this research was presented in Section 1.4. From this list the key interviews utilised in this chapter were:

- ▶ US003: _____, North America Group of Southern Company, Atlanta, November 1999; and
- ▶ UK013: _____ of Western Power Distribution, Bristol, February 2000.

Material provided by each manager will be referenced accordingly in the section of chapter references². The chapter also utilises secondary source material as necessary, as well as internal company documents, and will be referenced accordingly. As a condition for the granting of these interviews, personal confidentiality was assured. Consequently, reference will only be made to the job title of each manager quoted.

11.1 Summary of Observations of SWEB

As noted in Section 11.0, the first section of this chapter reviews the observations made of SWEB in respect of:

- ▶ the narrative presented in Section 6.4 of Chapter Six; and
- ▶ its analysis, and resulting conclusions with respect to the Company presented in the various reporting sections of Chapter Eight.

This brief 're-telling' of SWEB's story is necessary for two main reasons: firstly, it provides the context for the following discussion and analysis; and secondly, because the conclusions reached at the end of this initial investigation provide the first 'point' of the triangulation process that this section is intended to perform.

11.1.1 Strategy within SWEB

As with the two preceding case studies of Eastern and Seeboard, SWEB began the new era cautiously. Distribution was again identified as the core business that would drive the Company forward, while supply was expected to be an important but minor contributor to Group profits. SWEB was more like Eastern than Seeboard in respect of its attitude towards generation, and had already taken the significant step of investing in Teeside Power by the time of the issue of the pathfinder prospectus in 1990 (Kleinwort Benson, 1990, p.696). The Company also initially expected to remain active in the other traditional businesses of appliance retail and contracting. As such, SWEB initially pursued

²

The transcripts of these interviews have not been included in the Appendices to this thesis.

what could be identified as an archetypical set of REC strategies.

Initially therefore, the strategy was cautious, rationalised, and based upon a concentrated growth approach. However there was early criticism that SWEB was not as effective in controlling its costs as some of the other RECs. The Company itself stated that its unique service area - a peninsula with the jointly disadvantageous features of a small and disparate population, and a greater exposure to inclement weather - explained its higher cost base. SWEB was of the view that there was little it was able to do to counteract these characteristics of its operating area. SWEB was, therefore, one of the RECs in a centre group who were not aggressively exploring diversification opportunities (such as East Midlands, Norweb or Yorkshire), but who were not adopting a solely core focus (such as Seeboard, Manweb and London). It was among a small group of RECs who had developed a divisional structure early in their operational life following the realisation that formal business separation and transparency was on the Regulator's agenda, and that such a structure was much more appropriate for an organisation entering a newly competitive era.

In the period prior to its takeover, SWEB sought to improve its performance in the key concentrated growth areas of controllable costs and operational effectiveness. While these concerns dominated this early period, and SWEB made improvements, it was never identified as being a leading REC, and the Company would argue, was unjustly punished because of the particularly demanding service area it inhabited. In short, SWEB sought to operate as effectively and efficiently as possible in its core businesses, while making the by now traditional investments in generation and gas supply that most of the other RECs were making. It also engaged in some small scale concentric diversification into telecoms, but mostly conformed to the REC archetype approach: not doing anything wrong in particular, but not one of the market leaders. In the supply arena, it was one of the RECs more concerned with retaining its existing customer base, and in particular its domestic customer base, principally through attempting to offer a high quality service.

To an extent, this approach was dictated to SWEB as a result of its prevailing hostile climate, and made customer service much harder than for many of its peers. Before its takeover, SWEB was among the RECs with the worst performance record according to the Regulator's statistics. The Company was more aggressive in gas supply, but this approach was again largely the product of circumstance rather than strategy. The South West region was chosen as the home of the first competitive trials in the commercial and domestic gas industry with the result that the market was immediately highly competitive, and survival was based upon aggressive market development.

Following the takeover by Southern Company, there was a shift in emphasis as the new owners sought to increase the importance of, and SWEB's market share in, the supply industry. In particular the new SWEB aimed to be harder on controllable costs, a very high quality and responsive public utility, much more aggressive in its electricity and gas supply activities, and an increasing power in generation. Basically, the new owners intended to use the base of the original organisation to grow all of its operations in areas that offered growth, and to work its assets harder in areas where income growth was expected to fall.

Southern's aim in purchasing SWEB was principally to obtain the opportunity for rapid profit growth outside of its traditional sector. SWEB offered access to the UK industry, which Southern saw as potentially profitable in its own right, and also a stepping off point for mainland Europe. This meant that for Southern the key development areas within SWEB were its competitive business in supply and generation. These areas offered the possibility for growth, while the networks business just offered a steady, but diminishing, return and so was to be managed as effectively as possible. Consequently, SWEB initiated a step improvement in customer service and of the competitiveness of the supply business, an aggressive acquisition policy in generation, and swinging cost reduction in distribution, while overseeing the divestment of other businesses which did not fit its concept of its core activities.

However, the plans of SWEB's new owners³ were disrupted by a number of setbacks which prevented these objectives from being realised. SWEB's aggressive growth strategy in supply was held back by their inability to find an appropriate partner, or takeover target, having concluded that growth by organic means was unrealistic. Its aggressive growth strategy in generation was also held back, this time by Government intervention rather than by the actions of competitors. Its organic growth plans in generation were halted by the new Labour administration's placing of a moratorium on new build gas power stations, while the outgoing Conservative administration had prevented the initial attempts by Southern Company to take over National Power. The only area where SWEB was advancing to plan, therefore, was in relation to its core distribution business. Consequently, the attempts to grow two of its three core businesses were baulked.

3

Which now included PP&L, another US utility to whom Southern had sold 51% of SWEB, while retaining overall operational control.

Given this situation, it is perhaps of little surprise that the Company decided to sell its supply business and retain only its monopoly distribution business in the UK. Southern, when faced by seemingly insurmountable obstacles to its strategy, decided that retreat was a better policy than continuing to seek success under unfavourable conditions. These setbacks have led to a refocusing of Southern's activities, and it has turned its attentions to Germany, where it perceives that the opportunities denied to it in the UK may be available. However, the decision to retain the SWEB distribution business, subsequently renamed Western Power Distribution (WPD), signals the Company's intention to remain a significant player in the UK industry. WPD's recent victory in the takeover battle with Nomura for the distribution business of multi-utility Hyder indicates that the concentrated growth approach of WPD will be extended by horizontal integration with its contiguous neighbour as a means of driving even greater value out of its investment. It is interesting to note that the SWALEC distribution business is perhaps the closest in terms of its operating conditions to that of WPD, and so the potential benefits for sharing experiences and expertise in difficult conditions is provided to the new company.

11.1.2 Influences on Strategy within SWEB

As with Seeboard, SWEB did not begin the period subject to the same level of expectation as had, for example, Eastern Group. Indeed, the situation with SWEB was entirely the opposite. There was considerable speculation that SWEB would be among the RECs least likely to prosper in the new environment. This was due primarily to its relative size, and its difficult operating environment. Initially, the Company's prospects were viewed as 'hard to call' (Pearson, 1990d), and concerns with respect to the 'agricultural boards' have already been discussed (Holmes, 1992, and Chapter Six). When its first operating results came through, observers were impressed but sceptical in equal measure (Lascelles, 1992c, Smith, 1993e). In part, this nagging doubt was a result of the expected difficulty the Company would experience at the 1995 regulatory review of distribution prices (Smith, 1994e). However, SWEB appears to provide an example of how negative perceptions, based upon no good economic rationale, can prejudice the prospects of an organisation.

This was summarised by Smith in 1995, at around the time of the bid by Southern Company: "Since privatisation in 1990, SWEB has generally been rated by investors around the middle of the pack of 12. While it has made no obvious wrong moves, the view in the City is that it has failed to shine. Like other RECs, it has far outperformed government expectations of its ability to increase profits and dividends since privatisation.....The company is financially strong with £61 million net debt at the March year-end and gearing of about 12 per cent. SWEB's plans to enhance profits include a

further staff cut - from 2,900 in the core businesses to 2,400 by the end of the decade - and expansion into gas supply, generation and telecommunications. But all of this is quite normal for a rec. The problem for SWEB is that its management, led by Mr John Seed, the chief executive who joined the industry in 1957 as an engineer, is regarded as unexceptional. 'Fundamentally SWEB is very dull,' said one analyst. 'It does not have a strong fan club like other RECs.'" (Smith, 1995d).

This suggests a number of factors impacted upon the strategy of the Company. Firstly, the importance of the demands of the new market combined with the demands of the operating environment can not be understated. The new environment of commercial independence placed greater demands on all companies. However, the demands placed on companies like SWEB, which operated within a much more demanding region of the UK, can be seen to be even greater. Secondly, the influence of company managers would also appear considerable. The above statement draws attention to the fact that the Company was predominantly led by engineers, and that is not surprising given that the demands of its operating environment emphasised engineering skills. It also explains the concern for a core focus upon distribution. Thirdly, a hostile City would have pushed SWEB harder than other RECs who may have had less trouble fulfilling City expectations. Seeboard may be seen to fall into that category, although Eastern suffered the opposite fate. Finally, and because of the demands upon its network, the impact of the Regulator on strategy would have been considerable. The operational effectiveness of the network and the level of service provided would have been issues of particular interest in an area of the country where failures were perhaps more likely to occur. All things being equal, the development of a relatively narrow core focussed strategy is not surprising.

However, after the takeover by Southern Company the location of influence changed dramatically. Initially, the influence of strategic direction became the new owners, who very clearly sought to increase the intensity and scope of the strategies being pursued. The new owners placed in Bristol managers who were charged with driving the Company forward and hence they were also important to strategy making, but the main impetus was found in Atlanta. However, this aggressive and expansive approach was later curtailed, and the principal influences behind this change in direction were external. As noted in Section 11.1.1, obstacles were placed in SWEB's path by competitors and by the Government who both actively opposed SWEB's strategic intentions and led to a change in strategic direction. Latterly, the key influence on Western Power Distribution can again be seen to be its owners, especially in the decision to bid for the SWALEC distribution business, although it should be noted that for a Company solely engaged in distribution the influence of the regulator will also be considerable. The influence of managers on

strategy in solely distribution businesses will be reduced, as the scope for strategic decision making is inevitably lessened.

11.1.3 Observations Drawn

While Section's 11.1.1 and 11.1.2 have alluded to the various conclusions drawn about the characteristics of SWEB over the course of the analysis conducted in Chapter's Six and Eight, it is necessary to briefly reiterate them here. SWEB, as a company, had:

- ▶ initially pursued an approach focussed upon concentrated growth across all of its activities, but following its takeover in 1995 had become much more aggressive and expansionary in its outlook, pursuing market development in both supply and generation through a variety of grand strategy combinations;
- ▶ established a divisional framework immediately prior to privatisation and did not venture far from this framework until the sale of its supply business. However, efforts were made to make the Company more entrepreneurial after 1995;
- ▶ an initial approach to strategy that was prescriptive, but latterly emergent;
- ▶ an initial strategic focus which was upon its industry, but increasingly the elements of the Company were encouraged to be more independently entrepreneurial and hence the Company began to follow a more resource focussed approach which has sustained despite the decision to leave supply, albeit at a much lower level;
- ▶ key strategic influences originating externally, and where the Regulator in particular was influential. Following its turnaround, its strategy was heavily influenced by its owners, and the new leaders put in place by the owners, but then heavily constrained once again by external factors: the regulator, the government and its competitors. Currently, the key influence are those of the Regulator and its owners; and
- ▶ consequently SWEB was finally identified as a defender, as it is now simply a monopoly asset management organisation.

The above conclusions were based upon a three phased analysis: factual data from published sources; factual data from company sources; and opinion data from published sources. In so doing, the author argues that the process of triangulation discussed in Section 3.2.2 has been fulfilled, and that the author possesses a high degree of confidence in the findings reported above.

11.2 Testing Propositions: Strategic Content and Combinations

This section continues the work of the legitimisation of Proposition's 1 to 5, which were developed in Section 8.1.3, as begun in Sections 9.2 and 10.3. These propositions sought

to describe key characteristics of the strategies of companies in either regulated or recently liberalised industries, which would be developed for wider empirical testing in later research. The analysis throughout follows the framework established in Chapter Nine.

11.2.1 Legitimising Proposition 1

Proposition P1 stated that:

“companies will employ a limited concentrated growth approach in ongoing operations within their regulated businesses”

SWEB had established an Operations Division immediately prior to privatisation to manage its regulated distribution business (WPD, UK013, 2000). The early move to place its monopoly enterprise on a sounder business footing perhaps marks SWEB out as an organisation which adopted a slightly different approach in this area. The evidence gained from interviewees suggests that while the Company did pursue a concentrated growth approach, there were some aspects where there was a degree of difference. The emphasis within SWEB was always to attempt to achieve income growth. The structure of operations in the distribution business was altered in 1992-93 to encourage lower costs and higher levels of customer service, as a process of rationalisation was launched to improve the effectiveness of the core concentrated growth approach. Consequently, a number of smaller businesses were established as SBUs, to create potential income streams. This approach is an extension of the client-provider model attempted by Seeboard. Metering, training, even their helicopter fleet, were established as SBUs, within the wider distribution business, and required to seek external contracts to subsidize their financial impact upon the distribution business. The aim was greater cost effectiveness.

The need for this move was signalled even more forcefully around the time of the takeover when the first regulatory review in 1994, which cut the distribution business's income by 14%, was followed by the second review which cut a further 11% (WPD, UK013, 2000). There followed an intense period of cost reduction: “within distribution we reduced our staffing levels by about 21-22% over 1996...knowing as we did approximately what the income level was likely to be, to maximise profits” (WPD, UK013, 2000). In addition, SWEB started to become involved in regional development programmes to encourage more businesses to the South West. This was felt to be the only form of market development activity that was available to the Company's monopoly distribution business (Southern Co., US003, 1999).

WPD has become the third REC to engage in extending its limited concentrated growth approach by engaging in horizontal integration, although unlike the first and second RECs:

Eastern and London, it has achieved this through a takeover rather than a merger. It's takeover of SWALEC was presaged by the comments made by the

, who said in relation to horizontal integration of this kind: "clearly one possibility is that if there are developments of the joint venture kind like London and Eastern, there will be another 'cliff face'. The Regulator will do the comparisons he does and will say 'the frontiers of efficiency are the London's and Eastern's of this world. And I know you are not joint ventured, Western Power, but sorry you are still going to lose your income because you could have been'. It is certainly something that we are alert to and need to look at the possibility for" (WPD, UK013, 2000). Clearly, as the takeover of SWALEC occurred within 6 months of the interview.

Proposition 1 is, therefore, largely supported by the SWEB case, but does demonstrate the limited range of options that are available to companies to extend their core approach. Market development opportunities are available through regional development programmes, there are some opportunities in what might loosely be called product development or concentric diversification (such as establishing core activities as separate subsidiary businesses), but primarily cost reduction and improved efficiency are the core aims of such a business, and increasingly are required to be sought through horizontal integration.

11.2.2 Legitimising Proposition 2

Proposition P2 stated that:

"companies will seek to employ approaches to develop critical mass in most if not all of their continuing un-regulated businesses"

The interviews with SWEB managers present the most clear indication of the importance of critical mass to supply industries to emerge during the field research stage, and suggests the questionable viability of remaining within the industry if this critical mass is absent. When Southern Company arrived, their view of SWEB's supply business was that it was uncompetitive. The previous managers had decided that they were going to be the most profitable REC "so in the competitive business they were basically going out of business. Their prices were so high that nobody was buying from them. All they were doing was running the franchise until it ended" (Southern Company, US003, 1999). The new owners sought to turn the activity around by improving quality of service, and more importantly, trying to get the cost per customer down.

While they believed that they had succeeded in both of these objectives, the cost of sales remained too high. The delivery of the service carried with it certain core costs, like for

example the cost of maintaining the billing infrastructure, which could not be reduced in absolute terms, but which could be reduced marginally, as a proportion of the cost per customer: “so the only way to get the cost per customer down was to get more customers” (Southern Company, US003, 1999). The new managers of SWEB rationalised that there were three possible ways to do this: organically; by acquisition; or by joint venture.

The first option was the present and continuing solution that was not providing them with the numbers they required due to the competitive nature of the market. The Company’s attention switched to buying critical mass, by taking over the customer base of a rival. SWEB’s experience of the gas trials in the South West had provided some experience of the cost of such an approach. During these gas trials, they estimated that a single new customer would cost on average £100 to ‘buy’, but would only generate £15 profit per year. Consequently, the customer had to be held for a minimum of seven years to guarantee a profit. Customers under the new system could change supplier every 28 days, and consequently the growth by acquisition approach was deemed both too costly, and too risky.

The Company then explored the possibility of a joint venture with a competitor, and had discussions with several companies: Southern Electric, but they were too busy merging their business with that of Scottish Hydro; Midlands, but they soon sold out to National Power; and SWALEC, before they were sold on to British Energy. They would have talked to others, but were increasingly uncertain as to the position being taken by the government with relation to the sale of supply businesses: would further sales be permitted? Ultimately, having not found a suitable partner, and not being anywhere near the 4-5 million customers they believed necessary for the business to remain viable, they divested the SWEB supply business to London/EdF (Southern Company, US003, 1999). This case therefore clearly supports Proposition 2, and also shows unequivocally the difficulties of successfully achieving that target.

11.2.3 Legitimising Proposition 3

Proposition P3 stated that:

“the approaches mentioned in P2 will of necessity involve a combined price and non-price generic approach, so backing the arguments of a variety of authors against the conclusions of Porter (1980)”

Despite no longer remaining within the competitive part of the industry, the SWEB case does present evidence in support of Proposition 3. The comments made in Section 11.2.2

regarding the situation that Southern Company discovered when taking over SWEB, where “their prices were so high that nobody was buying from them” (Southern Company, US003, 1999), indicates the importance of price in any supply transaction. However, as noted in Section 11.2.1, the Company also sought to improve customer service standards. A SWEB manager noted that, prior to the takeover, the Company had been the “worst back in 1995” in relation to customer complaints per 100,000. By the time of the sale, a total reverse had occurred and SWEB was first in 1998 and 1999 “so we had had tremendous uplift in customer service across a whole range of measures” (WPD, UK013, 2000). They had one of the highest rated call centres in the country, and argue that the very high price received from London/EdF; at £235 million it was considerably higher than the prices received for Midland’s or SWALEC’s supply businesses which were sold at around the same time, was as a consequence of the goodwill they had developed with their customers.

The importance of a competitive price, and of a high added value level of customer service, is further revealed by the fact that the Company enjoyed the lowest loss rate of business and domestic customers for the middle period following privatisation. The new managers required an across the board improvement in service quality with each employee taking responsibility for improving customer service where possible, a commitment which continues in the monopoly business to this day. Despite, therefore, no longer operating within the competitive business, SWEB does provide strong support for Proposition 3, although it does also suggest that even with a successful utility based approach, success is not guaranteed within the industry.

11.2.4 Legitimising Proposition 4

Proposition P4 stated that:

“‘new core’ businesses will evolve incrementally as companies take on the responsibility for identifying viable concentric diversification”

SWEB clearly did become involved in both gas and generation, but the extent to which either business was ever a ‘core’ business is questionable. As Section 6.4 demonstrated, SWEB was relatively late in developing a gas business, and while its investments in generation came early, they were never of the same magnitude as others in the industry. Up until the takeover, however, the Company’s investments in these areas, and others like telecoms, were certainly incremental.

Upon taking over, Southern announced that it would be seeking to expand its generation capacity, equating as it did generation capability with market power. This strategy was

based upon two main business decisions: to seek building consents for new generation capacity, and to buy existing generation capacity. The latter decision was perhaps the most significant as the target that Southern sought to purchase was the largest UK generation company, National Power. In April of 1996, Southern Company approached National Power to request talks about a formal merger between the two companies (WPD, UK013, 2000). This was rejected by National Power and speculation arose that an hostile bid would be forthcoming. National Power was at the time attempting to take over Southern Electric in a bid which was subsequently blocked by the Regulator (as discussed in Section 7.4). It's view was that a merger with Southern Electric, one of the larger RECs, made more operational sense than merging with SWEB, one of the smallest.

However, external forces were soon in play to prevent SWEB/Southern Company's interest from leading to an hostile bid. The Government announced that it had placed a block upon any prospective takeover of either of the national generator's, by retaining its golden share in both National Power and PowerGen. It argued that such a move was necessary to protect the infant generation industry from the anti-competitive threats that such a merger would provide, in terms of the potential for vertical integration (Becket, 1996). The senior manager from WPD attributes the decision to more overt political motivation and suggests that Southern Company was warned off by the then Conservative administration that was approaching a general election and was worried by the political ramifications of approving such a takeover. It was his belief that "it was mainly a political decision, taken in the run up to an election, based upon the potentially adverse PR for the Government of selling off a key UK asset, so it actually wasn't allowed to happen. It was a significant source of frustration for Southern Company at the time" (WPD, UK013, 2000).

Generation would have aided the objective of building critical mass in supply, as discussed in Section 7.2.2. As has been indicated earlier, SWEB/Southern was putting considerable effort into that business objective, and at the time making an operating loss. More generation capability, allied to its existing supply channels, equalled vertical integration and cheaper operating costs and cost of sales. This setback alone may not have caused the retreat from supply, but a further setback occurred which had an equally detrimental effect. Southern was reported to be considering a variety of other options in generation, including approaching Eastern Group to discuss a joint venture which would see Southern taking a stake in its operations, or possibly operational control of its assets. This did not come to pass, so Southern switched its attention to building its own capacity. Southern had already obtained a planning consent to build a CCGT plant in the North of England. However, this consent was later blocked by the incoming Labour Government which

imposed a moratorium upon new build gas stations, in order to safeguard the interests of the UK coal industry (WPD, UK013, 2000).

This third setback, allied to those involving National Power and Eastern Group, significantly contributed to the retreat from supply. WPD still owns an interest in Teeside Power, and Southern Company continues to invest in individual projects within the UK, but the plan to create a vertically integrated organisation with a presence at all stages of the energy chain had now gone. Clearly, this analysis of SWEB's activities would seem both to support and oppose Proposition 4. An incremental approach was evident at the beginning of the period, and also during this time. However, it is clear that the new owners viewed a step change as being necessary to establish real market power in generation at least. This suggests that the concept of incrementalism is appropriate up to a certain point when that approach fails to meet the aims and objectives of the organisation. As SWEB's aims and objectives changed after the takeover, so the acceptability of an organic, incremental approach diminished. This does not, however, diminish the legitimacy of Proposition 4 which is accordingly supported.

11.2.5 Legitimising Proposition 5

Proposition P5 stated that:

“companies will inevitably seek consolidation, either vertically or horizontally, regardless of the regulatory regime within the industry, supporting the work of Helm and Jenkinson (1997)”

The evidence presented earlier in Section 11.2 would appear to justify and validate this proposition. The sections above have seen how SWEB sought to consolidate both vertically and horizontally throughout this period: horizontally through a joint venture in supply, and the takeover of the SWALEC distribution business, and vertically by seeking to develop its generation capability. Proposition 5 is therefore supported by this case.

11.2.6 Commentary

Once again, therefore, the case appears to provide support for Proposition's 1 to 5, and for the analysis presented in earlier chapters. It also demonstrates that there will be instances of variation at the margin of each of the propositions. In SWEB's case, it was pursuing an extended concentrated growth approach in distribution from an early stage, and has presented one model for the extension of this approach into a newer, more demanding regulated regime. SWEB also provided a clear conceptualisation of the process of concentration that all of the companies faced, and which Proposition's 2 and 5 sought to capture.

SWEB's principal interest in this research is that while it has actively conformed to all of the five proposition's, it is the first of the RECs to be examined in this extended field analysis to have experienced major setbacks, insofar as the strategy pursued by the Company has not succeeded in fulfilling its aims. SWEB's case therefore suggests that success is not merely a product of pursuing the 'right' strategy in an industry like the ESI, but that there are other key determinants of success. This issue will be addressed in the following analysis.

11.3 Testing Propositions: Strategic Drivers

In pursuit of a resolution of Objective Two of this research, a series of observations with respect to strategic drivers evident within the sample was presented in Section 8.2. Once again, the author acknowledges that the identification of patterns of behaviour presented in Chapter Eight, and derived from textual data, can not be said to with a high enough confidence factor to accurately reflect the relative importance of the five differing sources of influence on the strategy process identified during the research. Section 8.2.4 set out, therefore, to establish a set of propositions which sought to describe the relative influence of each driver of strategy among companies in either regulated or recently liberalised industries.

11.3.1 Legitimising Proposition 6

Proposition P6 stated:

“that the influence of an industry regulator upon a company's strategy will depend upon the relative proportion of its profits generated from regulated activities”

It is clear that throughout the period, the Regulator played a crucial part in the development of strategy within SWEB. The observations made by SWEB managers therefore goes some way to suggest the validity of Proposition 6. During the research process, companies were frequently reluctant to talk directly about the procedures they have in place 'to manage' their relationship with the Regulator, but from what was revealed it is clear the importance the Regulator enjoys in SWEB's strategy process. As has already been noted, SWEB has one of the most difficult region's of the UK to manage due to the frequent inclemency of its weather and the demands that inclemency places upon the network, as well as the widely dispersed nature of its customers. SWEB's network management challenge is therefore more demanding than for most other RECs, and centred upon its ability to fulfil the demands of the Regulator. This has led in the past to the Company lobbying the Regulator quite strongly in relation to the special requirements of its region, asking for some form of special dispensation to account for

these extra demands. The importance of the Regulator to WPD is also very clear as, with the sale of its supply business, the Company has very few non-regulated income streams to call upon, with the result that the Regulator oversees virtually all of their profit generating activities.

The first regulatory review, in 1994, was widely perceived as a triumph for SWEB. In the words of the then CEO, the Company "was pleased that this (*review*) recognised the exceptional challenges and costs that we face in the South West" (Seed, in SWEB, 1995, p.4). The outcome was the result of diligence on the part of the management team, and their efforts aimed at raising the Regulator's awareness of those 'exceptional challenges'. The City had been expecting a much harsher review of SWEB's performance and shows how tenaciously the managers of SWEB paid attention to the Regulator's particular concerns in operating their business. Yet, as noted above, the review saw a 14% reduction in the Company's income in its distribution business.

When SWEB was taken over by Southern, the Company's approach to its management of the Regulator appears to have become if not more aggressive, then certainly more focussed. It is safe to say that the incoming managers of SWEB were not impressed by the UK regulatory system, which they perceived to be overtly pro-customer at the expense of the companies, and to possess an large degree of business risk due to a lack of certainty. The view from Atlanta was that the Regulator had been captured by the customer lobby, and was not helping the companies. The Company's concern was based upon what they saw as a lack of consistency within the process. The Regulator when engaging in a review, they argued, tends to consider the actions and performance of each company from the beginning of the period; that is to say 1990, at every review, rather than since the last review was concluded, for example 1995. To Southern this is illogical. They hold that a review should be upon the basis of what has happened over the period under review, and nothing else. As one manager described it "we had a regulatory base in '95. What we ought to say is 'OK, that is the regulatory asset base. Now what have you added and what have you retired? But don't go back and revisit all of this. That was very worrisome to us" (Southern Company, US003, 1999).

The latest price review led to a requirement for WPD to cut its prices by a further 20% (WPD, UK013, 2000). Clearly, the Company has concerns that cuts of this order are making the profitability of their business unnecessarily risky, especially as it now has no other income streams. However, the decision to sell its supply business has at least removed the threat to income streams offered by the proposed business separation legislation which WPD privately regards as 'crazy'. However, the power of the Regulator

over its business means that the Company has little choice but to make representations to the Regulator at the consultative phase in any review, and then try to develop the most advantageous implementation process available to it once the policy developed by the Regulator has been clarified.

One clear area of conflict between SWEB and the Regulator was that of the Windfall Tax. While the tax was not imposed by the Regulator, the incoming managers from Southern blamed the Regulator to a large extent for permitting the original 'excesses' that the tax was intended to remedy, or penalise. SWEB under Southern believed it had been punished for the actions of others, as it believes that its own record of public service and corporate responsibility has been impeccable. SWEB was active in leading a protest against the tax, but recognised that the new Labour administration had been mandated to levy it, and that the RECs could do little about it. The impact of the tax was identified as being equivalent to "two year's of net income wiped out" (WPD, UK013, 2000), and was arguably the final setback that the Company received which triggered its decision to partially retreat from the industry by selling its supply business.

The windfall tax, therefore, allied to the actions of Regulator and Government in halting the Company's plans in generation, and the reluctance of other RECs to join forces in supply has played a very significant role in the Company's strategy development in the last five years. These external forces have actively, and effectively, constrained the organisational goals of the Company's owners and present an example of how external forces can have a profound impact. This finding is unlike those of the earlier case studies, and can be seen to illustrate the apparent lack of consistency in the area of strategic influences in the sector. It also in some ways undermines the argument that strong companies can ignore external influences, as Southern Company and PP&L combined are probably stronger in terms of financial capability than any of the other owners of RECs within the sector.

This analysis therefore provides tentative support for Proposition 6. While the influence of the Regulator at the present time is beyond question, it was also significant when the Company was operating in a variety of other non-regulated areas, and had less of a reliance upon regulated earnings. This suggests that a direct correlation between the Regulator's influence and the importance of regulatory profits is not proven and that, in some cases certainly, the Regulator is a key influence regardless of the reliance upon regulated income. It is, however, possible to argue that the actions that the new owners of SWEB proposed to undertake were as a consequence of the weakness of non-regulated earnings, suggesting that the Company was one of the RECs that had never been able to

reduce the influence of the Regulator on its strategy.

11.3.2 Legitimising Proposition 7

Proposition P7 stated:

“that companies pursuing a strategy across a range of sectors will be subject to influences from a variety of different drivers, but that the extent of the influence each exerts will be situational”

SWEB presents an interesting case as, unlike either of the two preceding RECs, it has sought to pursue a definitely expansive strategy, but has been rebuked. Even more interesting is that this rebuke has followed a seemingly favourable alignment among its strategic drivers. In the case of the Company’s supply and generation strategies, SWEB had: (a) identified market opportunity; (b) developed the appropriate resource base to pursue that opportunity; (c) possessed a leadership committed to the strategy; and (d) was assured of the support of the owners of the Company. What appears to have happened is that in the generation business, the regulatory-legislative influence proved to be greater than the influence exerted by the other drivers, and combined to constrain the Company’s strategy, while other external drivers, such as competitors, contrived to halt the strategy in supply.

The proposition is seen to be valid therefore, but principally in relation to the observation that the hierarchy of influences is situational. It also suggests that some organisations will have difficulty overcoming the influence of legal-regulatory drivers if circumstances do not favour them. What form those unfavourable circumstances take will be discussed in relation to Proposition 8.

11.3.3 Legitimising Proposition 8

Proposition P8 stated:

“that organisational size will be a key factor in an organisation’s management of its relationship with strategic drivers”

The discussion in Section 11.3.2 appears to suggest a scenario where a smaller company, or one with relatively limited market strength, has not been able to overcome the influence of external and regulatory factors in pursuing its chosen strategy, despite a favourable alignment of other external and internal factors. This situation appears to be the very opposite of the situation observed with Eastern Group, in Chapter Nine. Does the evidence gained from the SWEB case support this assumption upon deeper investigation? The discussion looks separately at the cases of generation and supply.

Firstly, generation. SWEB/Southern's plans in generation: to horizontally integrate through acquisition and organic development, were halted by act of regulator and act of government. However, there is little in the analysis which suggests that a larger, or more 'powerful', company would have had much more success. The decisions in both cases were politically expedient, and SWEB was not alone in suffering from the government's decision to place a moratorium on new build combined cycle gas turbine plants when it arrived in power in 1997. As for the decision to block the takeover of National Power, this was both politically expedient and, according to the Regulator, potentially anti-competitive. The official explanation was that as SWEB was a generator, albeit a small one, taking over National Power would have the net effect of there being one less generator, and hence reduced competition. The Company takes a differing perspective and blames the impending election, and the political consequences of: (a) a national generator being owned by Americans and (b) the impact of reduced competition as mentioned earlier (WPD, UK013, 2000). Market power is unlikely to have had an impact in this case, therefore.

However, the same could not be said for SWEB's experience in supply although the impact of leadership is also crucial here. SWEB wanted to form a partnership with another REC to increase critical mass in supply, as its leaders were not prepared to pay the necessary premium to buy critical mass. There is little doubt that a company of Southern's resources could afford to buy, for example SWALEC, Midlands, or Norweb's⁴ supply businesses, they just did not see the economic rationale. Eastern, on the other hand, did see the rationale and purchased Norweb Energi. Being unwilling to buy market share, the Company was unable to convince a competitor to join it in an alliance of some description. Size or Market power is unlikely to have made a difference here either, as the industry has yet to witness the joining of two supply businesses without a change in ownership. This suggests that any reluctance on the part of potential partners was based upon divergent strategic views, rather than a question of market power. Companies who wanted to remain within the industry wanted to do so on their terms, which involved total, rather than shared, control of their assets. Consequently, once again organisational size is not the key factor in this case, although more so than was the case in generation.

Organisational size was not, therefore, the determining factor in SWEB's relationship with external factors after 1995, and hence Proposition 8 is not supported. However, the story is slightly different prior to 1995. Section 6.4 explored the relationship that SWEB

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The other three REC supply businesses to have been divested.

enjoyed with, for example, the City of London prior to its takeover, and concluded that the City's low expectation of SWEB was based in part upon its low market power resulting from its small size, and that that constrained its ability to pursue its chosen strategy. Proposition 8 is therefore identified as a useful debating point, which may add value in future extensions of this research.

11.3.4 Legitimising Proposition 9

Proposition P9 stated that:

“that companies will seek to develop greater control over the impact of strategic drivers by developing key internal capabilities to achieve sustainable competitive advantage”

The preceding sections, 11.3.2 and 11.3.4, have demonstrated that in the case of SWEB the nature of the intended strategy was indeed a product of internal factors: the marshalling of the necessary resources by committed leaders enjoying the support of the owner in pursuit of recognised market opportunity. However, in certain circumstances the fact of such a positive alignment can not overcome strong external constraints, like regulatory bodies operating to prevent what they perceive as anti-competitive behaviour, or with political motivations. Regardless of this, however, the nature of the intended strategy within SWEB was indeed a product of internal factors, and clearly SWEB was intending to build upon what it perceived to be its unique capabilities and resources to achieve competitive advantage.

SWEB's confidence in the uniqueness of its capabilities and the ability of its resources to add value were largely a product of the takeover, which was viewed as having enhanced both considerably. SWEB's view that it was an effective customer service organisation was made true by the cultural change following the takeover, although its ability to manage a huge increase in its supply customer base has to be in question. The interviewee's noted both the antiquity of the existing supply side infrastructure (Southern Co., US003, 1999) and the failure of the CROESO computer network joint venture with SWALEC (WPD, UK013, 2000) although both interviewees believed the Company's call centre operations were of the highest order. Similarly, its financial capability shaped its confidence that it could operate a major generation portfolio, a large supply business, or an effective distribution company. The retreat from competitive businesses has not diminished this view, and the Company now identifies its network management capabilities as adding value to its recently expanded distribution business.

Proposition 9 is therefore supported in this case, but the author notes that there is a considerable difference between determining the nature of the strategic approach, and enabling its success.

11.3.5 Legitimising Proposition 10

Proposition P10 stated that:

“that ownership is the key influence over strategy”

SWEB presents a very clear example of ownership becoming a key influence over strategy, although it also suggests that the impact of ownership, like many other factors, is situational. The takeover by Southern Company changed SWEB's outlook completely. Prior to the takeover, the Company performed within the middle ranks of the industry, and was possibly viewed as being among the weakest of the companies. After the takeover, it was transformed into one of the more aggressive companies, with a expansive strategy aimed at establishing it as a key player within the industry. However, as the preceding narrative shows, even this positive alignment of factors was not sufficient to overcome the constraints that developed between 1996 and 1998. Ownership remains a key factor within the new WPD, and the takeover of SWALEC distribution shows that there is still a desire to expand within the industry, albeit in a narrower segment than previously envisaged. At present within SWEB, the key influences are probably ownership running equal in importance with that of the Regulator, reflecting WPD's reliance upon regulated income. Proposition 10 is therefore partially supported.

11.3.6 Commentary

Once again, as with the studies of Eastern and Seaboard, there would appear to be a different configuration of strategic drivers evident within this case. SWEB appears to have been particularly susceptible to the influence of the Regulator, and to other external factors. In particular, the 'contest' between strong owners and the Regulator has shown the particular importance of the influence of the latter. This is in contrast to the situation of Eastern Group; more influenced by internal factors, and Seaboard; influenced by all of the possible factors. The SWEB case suggests that the pattern, whose existence was suggested in Section 10.3.6, may indeed be evident. This is an issue that will be returned to at the conclusion of this chapter and in Chapter Twelve.

11.4 Validity of Classification

In Section 8.3, a series of classifications were presented based upon the analysis undertaken for each of the Company's in either Chapter's Five, Six or Seven, and Chapter

Eight. This section aims to consider the classification arrived at for SWEB, and to consider what the judgement reached in this case can tell about the wider validity of the classification system proposed by Miles and Snow (1978), in a regulated environment.

11.4.1 Validity of Classification of SWEB

In Table 8.9 of Section 8.3, the following classification's were made in relation to SWEB:

- ▶ that it was a local service provider, with no involvement in competitive markets;
- ▶ that it employed Variant 2B in its distribution business;
- ▶ that the key influences over its strategy making were a combination of regulatory and ownership factors;
- ▶ that the owner was pursuing 'arms length' strategic asset seeking investment; and that SWEB was in consequence a defender, using the Miles and Snow typology.

The assessment of SWEB as a defender, as defined in Section 2.5.6.2.1, argues that it possesses different characteristics from those of Eastern and Seeboard. However, and with reference to the discussion presented in Section 10.4, is it not possible to argue that SWEB/YPD's behaviour and characteristics are similar to either or both of Eastern and Seeboard's distribution businesses?

SWEB/YPD's classification as a defender was based upon its singular involvement in a regulated business which does not permit particularly aggressive domain extension activity. However, it is clear from the preceding analysis, and that presented in Section 6.4, that SWEB is anything but a defender, and indeed is arguably an innovative company in its distribution business, insofar as its takeover of SWALEC's distribution business has augmented its existing market development activity. Consequently, it is arguable that SWEB/YPD is an analyzer in distribution (following the cautious prospecting undertaken by Eastern and London in this sector), and not a defender at all.

The case of SWEB/YPD would therefore seem to confirm that: (a) the fact of a singular involvement in a regulated industry should not be assumed to be evidence of only one form of behaviour; and (b) that the case presents further support for the argument that separate classifications are required for each of the major businesses an organisation is engaged in, be they involved in both supply and distribution or, as in the case of SWEB/YPD, only in distribution. This case therefore suggests that a degree of deeper clarification is required in order to understand the applicability of this model to an industry like the ESI. This issue will be returned to and considered in Chapter Twelve.

11.5 Other Key Issues

This section continues the work begun in Section's 9.5 and 10.5 in examining the variety of other key issues identified throughout this research, but which have not been the core focus of attention. The first of these considers what the case of SWEB can contribute to the debate on the differing concepts of the firm.

11.5.1 Competitive Forces versus the Resource Based View

The author believes that there are possibly three distinct periods during this case study: 1989-1995; 1995-1999; and 1999 onwards, during which the Company's emphasis appears to have swung, as interpreted by the competing concepts of the firm. Initially, the Company was following a strategy best understood by a competitive forces approach, orienting itself and its strategic outlook to its industry, and pursuing what could be identified as relatively predictable traditional strategies. While the Company may have argued they possessed unique capabilities, they were only latterly attempting to exploit them as a series of resources conferring the potential for competitive advantage. The decision to establish a variety of functional areas as not just profit centres, but as separate subsidiary holdings; the increasingly familiar internal network configuration (Miles and Snow, 1992) can be seen as evidence of a resource based view gaining ground.

Following the takeover, this developing emphasis was more central to the organisation although the approach was also combined with a very industry facing approach. While entrepreneurialism continued to be encouraged, the emphasis of the Company was based very firmly upon the market and through developing market power. The middle period saw a more balanced approach which the case study of Eastern identified as being the idealised response from a company in this sort of situation. The final period perhaps shows the same sort of relationship, but on a much reduced scale. The separate subsidiary network still exists, but the loss of the main competitive businesses has reduced the scope of the potential for a resource based approach to thrive. The regulated industry focus clearly favours an industry facing approach, although as with all concepts that are applied to the distribution business, care needs to be exercised when using terms in acknowledgement of the lack of competition. This issue, the validity of the competitive forces concept in a non-competitive arena and the need for modification of terminology, is discussed in Chapter Twelve.

11.5.2 The Impact of Process

SWEB appears to have had a more definite strategy than did Seeboard, as discussed in the preceding chapter, in the very early years following privatisation. The early decision to

establish a divisionalized, business focussed structure gives the impression of a company with a clear awareness of the requirements of the new environment and hence of the need for a strategy. The emphasis, as discussed in Section 11.5.1, was initially upon the traditional areas conducted by a REC, and primarily in distribution. The evidence gained in the interviews would suggest that initially the Company pursued a more prescriptive approach, deemed necessary because of the scrutiny the Company was subject to in its difficult distribution franchise, and lack of emphasis upon its supply business.

As the potential within the industry became more apparent, so the Company began to pursue a more emergent approach to its strategy. The structure for a more decentralised approach already existed, and gradually the management structure evolved to maximise the benefit the Company could obtain from this structure. Each of the different divisions were headed by a Managing Director, and responsibility for business level strategy was increasingly passed to them. This ran in tandem with the establishment of separate profit centre/subsidiary undertakings, whose mandate was to be entrepreneurial, and all of whom managed their own profit and loss accounting (WPD, UK013, 2000). The organisational and managerial structure stayed the same during the period following the takeover, but the philosophy changed slightly. The new owners disliked the concept of a divisional company, as it implied actual 'division', which did not fit their philosophy. They preferred a team concept, where everyone was working towards a common goal, and where responsibility was shared. This development can not be seen to have returned SWEB to a more prescriptive strategic approach, but it is certainly the case that the US owners had a more defined concept of where the Company was going in terms of its strategy in supply and generation, and so while the concept of 'strategy as pattern' was still in place, the detail of the pattern was clearly more well defined under the new ownership than previously. The subsidiary undertakings were, however, still encouraged to pursue new opportunities for non-regulated revenue generation, and in these areas it is possible to identify a more emergent process.

Following the sale of the supply business, and the reversion of the generation business to a simple asset managed for profit rather than the planned strategically integrated enterprise, the Company has reverted to a more prescriptive approach, as befits a regulated, stable, and non-competitive business, which operates a unified functional structure (WPD, UK013, 2000). Once again, the exception to this observation are found in the subsidiary businesses which follow a more emergent path, at least when they are not contractually obliged to provide services for the main group.

11.5.3 Strategy Making at Different Levels

As discussed throughout this chapter, the decision to establish a divisionalized structure in 1988 allowed for the potential for strategy making at different levels to become commonplace. The establishment of separate managing directors for each of the six initial divisions, and the encouragement of entrepreneurial attitudes among the subsidiary businesses, which fit very closely to Buzzell and Gale's SBU concept, extended this process. While the takeover by Southern appears to have resulted in a more centralised strategic objective, the devolution of responsibility for some aspects of strategy was undoubtably retained. The Company now operates a functional structure, but one where the layers of management have been reduced from the original seven layers, to "far fewer". The emphasis is upon responsiveness and proportionality in staffing, and in order to deliver effective service to its customers, the bulk of the remaining employees at WPD are consequently in the field. There is a hierarchy in place, with fixed reporting lines, but inevitably a degree of autonomy is also evident within the structure. In the main, the remaining employees of WPD are engineers, focussed upon specific tasks which are aimed at maintaining the integrity of the network (WPD, UK013, 2000). They are not called upon to make competitive judgements, but rather to perform a particular task as effectively as possible. The Company's geographical area is divided up between teams, who are tasked with ensuring this integrity. The current business and structure probably allows operational decision making to be devolved, rather than business level decision making which is of less importance in a non-competitive industry.

11.5.4 Leadership

As was observed on both of the preceding chapters, different leadership styles appear to have been evident within SWEB over this time period. Once again, the differing styles of leadership appear to broadly coincide with the different phases the Company experienced, as identified in Section 11.5.1. During the first phase, when the organisation operated under a more prescriptive strategy regime, the leadership appears to have been more transactional, emphasising hierarchy and control mechanisms. However, the more entrepreneurial attitude which became evident within the Company as it moved towards the second phase reflects the development of more transformational leadership: a process which was completed with the arrival of the new US owners. However, and as has been noted throughout this section, the extent of the transformational leadership evident within SWEB was never as great as was evident in, for example, Eastern Group. The approach of the new dominant coalition within SWEB suggests what Farkus and Wetlaufer (1996) identify as a human-assets approach, wherein a 'corporate way of doing things' is inculcated by the example of senior managers.

The interviews provided a notable example of this human-assets approach, in relation to customer service. A senior WPD manager describes the impact of the new CEO on improved service quality in this area: "If a customer complaint came to the Chief Executive's office, prior to takeover typically that would get passed to the appropriate department to deal with. The new Chief Executive from the States took it upon himself personally to deal with any complaints that came through to his office. It was taking up ages. But you know that phrase they use 'for change to be effective it needs to be seen to happen at the top', as well as all the way through the organisation. You think, well that is one of those phrases you see in business books. But it was true. It had an immediate effect. If the Chief Executive is ringing through to a team manager or a distribution manager in one of the localities and saying 'I've got this complaint and I want you to find out the reason and come back to me this afternoon so I can ring up this customer in order to speak personally to him or her', something like that very quickly has an impact throughout the organisation" (WPD, UK013, 2000).

The sale of the Company's supply business has seen a move back towards a more transactional style of leadership, albeit across fewer layers of management than before the takeover. However, the Company still retains the human-resources approach to leadership as the best way to perpetuate the dominant philosophy of the owners of the Company.

11.5.5 The Impact of Structure

The structure of SWEB has been discussed throughout this chapter. It has been noted that the Company was among the first to move towards a divisionalized structure, in a decision that anticipated the demands of the new era. The impact of this more business oriented structure was not immediately felt, as the Company was not initially particularly entrepreneurial. However as the period progressed, the divisional structure provided the framework for the development of a more entrepreneurial attitude throughout the Company. As described earlier, the new owners disliked the concept of divisions, and preferred to emphasise the unity of the organisation in an attempt to create a team ethos.

An interviewee describes the new owners thinking as follows: "In terms of divisional structure, following the takeover, one of the first decisions taken was to do away with the word 'division'. Southern Company ethic was to focus very much on the 'Team'. Now that wasn't the ethic in old SWEB. Their opinion was 'we shouldn't have the word division. That implies divides. We are actually team players. We should run it as a team from the top. The Chief Executive did not look at an HR guy to input only on HR aspects, or an operations guy on operations aspects, he wanted a broader business view,

from a team approach. So one of the first things we did when changing the organisation was getting rid of the word 'division'. Focus in upon team playing and mutual support within the organisation" (WPD, UK013, 2000). What happened was therefore more of a cosmetic change, to reflect the owners style of management. The extent to which the Company had never operated a divisional structure which permitted autonomy, and indeed where a more prescribed approach to strategy was pursued (as discussed in Section 11.5.2) is demonstrated by this comment from the same manager: "we were organised functionally but if you like on a departmental basis rather than on a divisional basis" following the takeover (WPD, UK013, 2000). After the sale of the supply business, the operating logic of the remaining monopoly distribution saw the return to a functional structure.

11.6 Concluding Remarks

As with the preceding two chapter's, this case study of SWEB/WPD was intended to continue the process of verification of the ten propositions developed during the preliminary stage of this research. On so doing, Objective's One, Two, and Four of this research were to be addressed, and some headway gained in relation to Objective Three. Additionally, other relevant commentary was to be provided and conclusions drawn.

The summary of the progress made in respect to Propositions 1 to 10 will be presented in Chapter Twelve, but at this point it is possible to say that:

- ▶ the case study provides support and legitimation for all of Proposition's 1 to 5, and indeed that support is greater than for the preceding cases. SWEB appears, therefore, to be more representative of the majority of RECs if this analysis is seen to be accurate; but that once again
- ▶ while some support is offered for Proposition's 6 to 10, the degree of this support is not as conclusive as for the earlier five propositions. However, it is possible to argue that the degree of support is greater in this case than in either of the preceding cases.

The support, or otherwise, for Proposition's 1 to 10 represents the confidence currently held in the observations made thus far in respect of Objectives One and Two. Concern was also expressed with respect to observation's made in relation to Objective Three, which will also be discussed in Chapter Twelve.

Significantly, the chapter also offers a further opportunity to comment upon Miller's concept of 'organising themes' (Miller, 1996). This case study appears to provide further

support for the view that degree of 'market power' is related directly to the influence that is key in driving organisational strategy. At no point during its existence has SWEB exercised a high degree of market power, and as a possible consequence it has been subject to the pervasive influence of external factors. If this is indeed the case, then the research would appear to identify just such an organising theme. However, some degree of caution is required, as other factors, and in particular the initial, arguably 'intuitive' perception of the prospects of each company based upon the geographic locations of each company as discussed in Section 3.4.2 may also have been important. This issue will be returned to in the following chapter.

Chapter Twelve Evaluating Propositions and Classification

12.0 Introduction

The purpose of this chapter is to evaluate the progress made towards the resolution of the key objectives of this thesis during the field stage of the research, as reported in the preceding Chapter's Nine to Eleven. The investigation undertaken during the field stage was intended to explore in more detail, and aim to verify, the various conclusions drawn at the end of the preliminary stage of the research, as reported in Chapter Eight. The aim of this chapter is therefore to extend the analysis presented in Chapter Eight, and to ascertain the legitimacy, and hence the confidence, that can be placed in the findings reported to date. The success or otherwise of this part of the process will have a direct impact upon the contribution that this research can be said to have made to the wider literature, and upon the direction of future research.

Both the questions of contribution, and the direction of future research will be addressed in the final chapter of this thesis. This chapter addresses the following elements of the research:

- ▶ firstly, a summary evaluation of the legitimacy of the ten propositions identified in Chapter Eight, and discussed throughout Chapter's Nine to Eleven. In presenting this evaluation, Objectives One, Two and Four of this research are resolved;
- ▶ Secondly, a summary evaluation of the relevance of a variety of existing managerial concepts and models to an industry like the ESI which does not operate in a typical free - market paradigm. In presenting this evaluation, Objective Three of this research is resolved; and
- ▶ Thirdly, and taking into account the review presented in relation to Objective Three, a discussion based around Supporting Objective One, wherein the author discusses some of the deficiencies identified in the application of existing concepts and models to an industry like the ESI and suggests tentative amendments to these concepts and models which (a) may help improve their applicability and (b) are then required to be tested further.

12.1 Evaluating and Amending Propositions

The purpose of this Section is to evaluate the ten tentative propositions identified in Chapter Eight, and ascertain whether they are valid or in need of amendment prior to their

application and use in future research. The author's aim in this exercise is to justify the elevation of the tentative propositions to the position of formal hypotheses to be applied in forthcoming research. Before beginning this assessment, it is perhaps appropriate to reiterate the reasoning behind the development of the propositions. Objectives One and Two of the research originated in the assumption that the RECs would have: (a) developed different strategies and (b) been subject to different drivers in developing these strategies, despite being roughly similar at the point of their creation (the privatisation of the ESI in 1989). The author believed that the patterns that could be expected to emerge from the ESI could also be expected to emerge from industries sharing a variety of similar characteristics to the ESI. However in order to ascertain the similarity or dissimilarity of companies experiences, some form of quantifiable measure was required. The propositions were therefore devised to: (a) describe the key conclusions that developed out of the analysis of the behaviour of companies within the ESI; and (b) provided a means of comparison. This assessment of the validity of the propositions is divided, as has all of the analysis to date, between the propositions associated with strategic content, and strategic drivers.

12.1.1 Validity of Proposition's 1 to 5

Proposition's 1 to 5 were established in Section 8.1.3 based upon existing published data, and further tested in each of Chapter's Nine to Eleven using primary data developed from in-depth interviews as part of the process of triangulation discussed in Section 3.2.2. The extent to which they accurately describe the reality of strategic content among the sample companies is now discussed:

- ▶ Proposition 1: that companies will employ a limited concentrated growth approach in ongoing operations within their regulated businesses, is strongly supported. Evidence from the preliminary and primary stage research shows that companies have relatively few options outside of a concentrated growth approach, identified as working its assets as hard as possible, due to the nature of regulation. Examples of extended approaches did emerge, which usually involved market development, through regional development schemes (Northern, Section 5.3) or winning large scale network management contracts (Seeboard, Chapter Ten). However the actions of two of the case study companies: Eastern (Chapter Nine) and SWEB (Chapter Eleven), provided evidence of more advanced thinking, albeit within the range of a limited concentrated growth approach, when their regulated business either merged with, or took over, the assets of another company. This behaviour, the author concludes, will become the norm within the industry, and accurately describes the options available to companies remaining within regulated industries. Its adoption unchanged as an hypothesis is therefore recommended;

- ▶ Proposition 2: that companies will seek to employ approaches to develop critical mass in most if not all of their continuing un-regulated businesses, is also supported, but more conditionally than Proposition 1. Evidence from the preliminary stage, and especially from Chapter Eleven of the primary stage research, shows that once again companies have relatively little option but to seek critical mass in non-regulated areas, particularly in supply, as these industries mature and the economic realities of continued participation in each become clear. This behaviour, the author once again concludes, is becoming the norm within the industry and recent events¹ suggest this. However, the evidence from Chapter Ten is that some companies do not appear to subscribe to this belief, and are seeking to manage their existing share of the market without overt attempts to develop critical mass. From this the author concludes that the industry has yet to reach full maturity, and much greater consolidation in search of critical mass will occur over the course of the current period. Nevertheless, and despite this qualification, its adoption unchanged as an hypothesis is therefore recommended;
- ▶ Proposition 3: that the approaches mentioned in P2 will of necessity involve a combined price and non-price generic approach, is strongly supported. All of the companies were faced with the need to develop low cost-high quality product offerings in each of their competitive areas of business, as consumer expectations were raised by the actions of the Regulator, and by the intensity of competition. Indeed the same is also true of their non-competitive businesses, but that was solely the product of the actions of the Regulator. The author, in a recent article (James *et al*, 2001), has questioned whether this use of a segmented or unsegmented utility approach is an inevitable feature of the industry, or whether it will be a feature of the immature industry which will alter when maturity is reached? However, at the current time this proposition is indisputable, and its adoption unchanged as an hypothesis is therefore recommended;
- ▶ Proposition 4: that 'new core' businesses will evolve incrementally as companies take on the responsibility for identifying viable concentric diversification, is supported but again with certain qualifications. The evidence from the secondary research suggested that the companies all sought to gradually develop new core businesses, which in this industry were gas supply and generation. However, later analysis during the field research, and in particular in Chapter's Nine and Eleven, suggested that incrementalism was a product of the available resources rather than

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As shown by the takeover of four supply companies, and the collapse of Independent Energy (See Chapter Four).

a cautious attitude. New owners of Eastern Group and SWEB sought to achieve step growth in generation: successfully in the case of Eastern, which reflects the influence of their greater financial resources post takeover. However, as the proposition attempts to describe behaviour at the beginning of a process: identifying viable concentric diversification, rather than attempting to achieve critical mass, the proposition is supported, and its adoption unchanged as an hypothesis is therefore recommended; and

- Proposition 5: that companies will inevitably seek consolidation, either vertically or horizontally, regardless of the regulatory regime within the industry, is once again supported with qualifications. A dominant theme within the industry since the expiration of the Government's golden shares in 1995 has been consolidation, which has been especially clear as a number of large groups begin to appear as supply and generation interests in particular are divested. However, and in common with the observations made of Proposition 2, some companies have yet to appreciate what the author identifies as a growing theme emerging as the industry matures, and have not followed this impulse. However, and despite this qualification, the proposition is supported, and its adoption unchanged as an hypothesis is therefore recommended.

In general, therefore, all five proposition's related to strategic content have been supported, and will be carried forward into future research. This suggests that insofar as Objective One of the research is concerned, there is a clear element of similarity running through the content of each remaining REC's strategy. This the author identifies as indicating the existence of a 'REC archetype' strategy, or at least of certain key elements which are likely to be evident in all REC strategy to some extent. This does not suggest that all strategies are identical, although the analysis in Chapter Eight does suggest that the more radical departures from a archetypical utility approach have now been eradicated. However, the field analysis did suggest that the differences between companies do remain significant and that a deeper difference of opinion as to the future direction of the industry exists. Companies like Eastern are adopting a less utility focussed approach, by developing capabilities more akin to a city commodity trading organisation, and are pushing against the limitations of the archetype. Companies like Seeboard are arguably not yet at the stage of rationalizing that they need to adapt their existing strategies to effectively compete in the evolved energy industry.

Overall, however, the analysis of the field study data would seem to support the conclusions reported in Chapter Eight, and to illustrate that while companies did pursue divergent strategies at the beginning of the period, there is a much greater degree of

homogeneity in terms of core principles of strategy, if not the precise content of each company's strategy itself. Whether this pattern can be identified within other similar industries is an issue for future research.

12.1.2 Validity of Proposition's 6 to 10

Proposition's 6 to 10 were established in Section 8.2.4 based upon existing published data, and further tested in each of Chapter's Nine to Eleven using primary data developed from in-depth interviews as part of the process of triangulation discussed in Section 3.2.2. The extent to which they accurately describe the reality of the impact of strategic drivers among the sample companies is now discussed:

- ▶ Proposition 6: that the influence of an industry regulator upon a company's strategy will depend upon the relative proportion of its profits generated from regulated activities, is generally supported. The evidence reviewed in Chapter Eight may be interpreted as suggesting that the influence of the Regulator was in some cases limited within this industry. However, the evidence gathered in field work would suggest that the Regulator remains a key influence, even for those organisation's which have developed extensive non-regulated revenue streams, such as Eastern Group. The conclusions from the field research is that the Regulator is perhaps the key influence, but that inevitably the degree of influence will be tempered by the extent that an organisation relies upon regulated earnings. While the new evidence supports the continued influence of the Regulator, it in no way contradicts the proposition, which is supported, and its adoption unchanged as an hypothesis is therefore recommended;
- ▶ Proposition 7: that companies pursuing a strategy across a range of sectors will be subject to influences from a variety of different drivers, but that the extent of the influence each exerts will be situational, is again generally supported. The case studies provided evidence, particularly in the case of Eastern Group, that wide ranging strategies required an organisation to have a clear understanding of the external environment and the opportunities and constraints it offers, its internal capabilities, and strong leadership support and initiative. The Eastern case, where leadership has identified as the crucial driver, also exhibits support for the view that the hierarchy of influences is situational. The Seaboard case illustrates the impact that a different hierarchy of influence can have upon strategic content. The Company arguably was not as certain of its resource capability and was led by managers who adopted a different outlook to Eastern. The impact of the Regulator was crucial. The SWEB case illustrated that even with the necessary positive drivers in place: opportunity, resources, leadership and strong owners, external factors can constrain strategy. This issue, of the nature of external factors

and the question of why their impacts can differ in different situations, will be discussed below. While the cases illustrate that differences can occur, this strengthens the validity of the proposition, which is supported, and its adoption unchanged as an hypothesis is therefore recommended;

- ▶ Proposition 8: that organisational size will be a key factor in an organisation's management of its relationship with strategic drivers, appears to be strongly supported although through a subjective interpretation rather than from clear evidence. In the analysis of Proposition 7, the issue of why external and regulatory factors impact upon different companies in different degree was touched upon. One interpretation of the evidence presented in the field work is that there are other factors at work which determine whether an approach works for one company, but not for another. As the analysis in Chapter's Nine to Eleven would appear to suggest, and has been suggested by the author as presenting evidence of an 'organising theme' (Miller, 1996), the relationship between organisational size, market strength and strategy would appear to be significant, and as a consequence the adoption of the proposition as an hypothesis unchanged is therefore recommended. This issue is discussed further below;
- ▶ Proposition 9: that companies will seek to develop greater control over the impact of strategic drivers by developing key internal capabilities to achieve sustainable competitive advantage, is generally supported. The field work presented in Chapter Nine clearly shows an organisation which has focussed upon the capability of its resources as a means of developing competitive advantage. Chapter Ten arguably shows an organisation which voluntarily constrained its strategy based upon its resources: Seeboard had faith in the quality of its resources, but did not see them as being appropriate for pursuing a strategy similar to that favoured by Eastern. Only Chapter Eleven, where post takeover SWEB certainly held considerable resources and was seeking an expansive strategy but was constrained by external and regulatory factors, would appear to falsify the proposition. However, and despite this concern, the author believes that the proposition presents series of useful debating points such as: if internal factors are not able to overcome external factors, can they be said to uniquely capable?; why are apparently capable resources proving unable to overcome external factors? And so on, and as a consequence the adoption of the proposition as an hypothesis unchanged is therefore recommended; and
- ▶ Proposition 10: that ownership is the key influence over strategy, is also tentatively supported. One fundamental observation emerging from this research has concerned the considerable impact of new owners upon behaviour within the industry post 1995. These observations have argued that new owners have tended

to either enable (in the case of Eastern and SWEB), or protect (in the case of Seaboard), but to a greater or lesser extent have impacted strongly upon strategy. The extent to which new owners are the key influence is debatable, as the case of SWEB shows. However, and as with the preceding proposition, the author concludes that the proposition presents a useful debating point: will the impact of ownership evolve over time?; to what extent are global patterns developing within the wider industry?, and as a consequence the adoption of the proposition as an hypothesis unchanged is therefore recommended.

In general, therefore, all five proposition's related to strategic drivers have been supported, although some more tentatively than others, and will be carried forward into future research. This suggests that there is less similarity evident among the influences exerted upon companies, and the core elements of content that are increasingly appearing. This is not unexpected, but does create a real question that requires future analysis: is there any relationship between organisational characteristics and the intensity of impact that a variety of influences have upon organisations? Which characteristics in particular make an organisation more susceptible to the influence of the Regulator, or other external factors, for example. The author is particularly interested in the relationship between regulatory regimes and corporate strategy and this area in particular is targeted for future research. All of the above discussion suggests that, in relation to Objective Two of this research, it is very clearly the case that different factors influence different companies in different ways. The extent of this difference is great and requires further research. It is also necessary to propose that further research of this nature be extended to other industries to see if it is possible to identify patterns across the regulated utility sector. The impact of the Regulator would, however, appear to be crucial, and this point is returned to in Chapter Thirteen.

12.1.3 Evaluating Impacts of Different Drivers

In Section 2.6.2, a framework for the evaluation of the impact of possible drivers was established. Throughout this research, all of these drivers have been discussed, but not in relation to the model, which was presented in Figure 2.5. The author now wishes to briefly review the debate in relation to this model. The research to date would seem to validate the model, but does suggest that there will be differences between companies in the precise nature of the relationships that the model predicts. The author argues that all of the various relationships that the model predicts are valid, and have been demonstrated to be valid throughout. However, and closely linked to the work on organising themes which will be discussed in Chapter Thirteen, this model requires further analysis. It may be possible to determine a dynamic model enabling a company to better understand the

potential impact and importance of each factor in its strategy process. However, the development and testing of this model is beyond the immediate capability of this thesis, and is an issue for future research.

12.2 Evaluating Existing Theory

Objective Three of this research was concerned with attempting to classify the strategies identified in Objective One and analysed in Objective Two against existing generic management typologies. During the preliminary and field stages of the research, this objective was widened to include considering how robust a variety of existing management theories were if 'tested' in an environment like the ESI, which was not a traditional free market. The rationale underpinning this decision was based on the view that such an extension was necessary to enable the proposed classification to be meaningful by enabling the commentary conducted here to have a wider application, and that existing theories contributed components to the classification process. As such, throughout the analysis presented in Chapter's Five to Eleven the following issues were addressed:

- ▶ the validity of both the competitive forces and resource based view's of strategy making in the firm;
- ▶ the impact and significance of the chosen strategic process;
- ▶ the existence and impact of strategy making at different levels of the firm, and its significance;
- ▶ the impact and significance of the chosen mode of organisation leadership;
- ▶ the impact and significance of the chosen organisational structure; and ultimately therefore the validity of available classification systems. The outcome of this final issue was to have a bearing upon the pursuit of Supporting Objective One.

Each of these issues is therefore addressed in turn in this section. Firstly, the different and competing versions of strategy making in the firm.

12.2.1 Competitive Forces and Resource Based Views

In each of the case study chapters, an assessment was made as to whether a company has demonstrably sought to orientate their strategic choices towards: (a) their industry; (b) their resources; or (c) both their industry and their resources. The analysis conducted in Section 2.2, which involved an attempt to understand the debate in terms of the key drivers associated with each of these views, concluded that some form of dual orientation was the preferred option. Under this dual orientation, an organisation would pay attention to both its industry, characterised by the external drivers, and to its resource capability,

characterised by its internal drivers.

The research reported here appears to suggest that most of the organisations had tended to heed the influences of all of the strategic drivers, but that as the previous section has discussed, the extent to which these drivers impacted upon each company was situational. Within the three cases, arguably Eastern clearly orients itself in relation to both its industry and its resources, and benefits as a result. Seeboard arguably has oriented itself principally towards the competitive forces it faces, but is showing an increased awareness of its resource capability, and it was argued in Chapter Ten that this awareness was characterised by a concern for the strength of the resources, which constrained the strategy rather than enhanced it. This outcome remains valid as an outcome of a resource based view, although it tends to run counter to the generally positive view of the ability of resources to expand a company's operational capability. As for SWEB, it would appear that the Company has been influenced by both external and internal factors over the period. The Company clearly had a deeper resource base after the takeover, and were clearly intent upon utilising these new resources to broaden the market share of SWEB, albeit within the existing industry context. The failure of this approach suggests that the possession of resources alone does not inevitably lead to success.

This final point perhaps enables this research to make an interesting contribution to this debate. The general thesis of the resource based view is that resources are important to the achievement of competitive advantage, and authors believe that companies need to first define their key resources and then build strategies around them (Collis and Montgomery, 1995, Grant, 1991). These authors note that possessing valuable resources in one arena does not imply success if those resources are applied to a corresponding arena (Collis and Montgomery, 1995, p.127). However, they further note that 'leveraging' their resources appropriately can bring high rewards (Collis and Montgomery, 1995, p.128). In other words, as discussed in Section 2.2.3.2, a resource based outlook may become a gateway for a company into a new industry. The research reported here supports the initial interpretation, but suggests that the opportunity to achieve leverage of the kind envisaged may be limited in an industry like the ESI. At issue is what sort of resources are available, and whether the resources naturally occurring within one industry can find applications elsewhere. It may also be a question of the scale of the proposed diversification.

Certainly, in the period leading up to the expiration of golden shares in each company, RECs who strayed away from using their resources in related areas were punished, as the analysis of EME in Section 6.1 showed in particular. Even following the expiration, and

the widespread change of ownership, the companies have not strayed far from their existing and related areas of interest. While investments in telecoms, gas marketing and generation indicate a wider use of different types of resources: telecoms using the existing network infrastructure as a resource, gas marketing the existing customer service capability, and generation indicating the use of financial resources, they are all closely related to the traditional networked/public service/public utility industry that the companies have served all along. Even the most radical move identified in this latter period; Eastern's move towards establishing itself as more of a commodity trading organisation, is related. However, in some situations: such as London Electricity and call centre operations (Section 7.2), and SWEB and helicopters (Chapter Ten), leveraged use of resources in new areas of business can be identified. At this stage in the development of the companies, therefore, it would appear that the opportunity to expand a business's horizons envisaged by some proponents of the resource based view is not widely available to companies like the RECs suggesting that the view itself may have a limited application. As the companies develop, and seek to diversify away from an ever more competitive, or regulated, environment, this position may of course change.

12.2.2 Importance of Process

The research reported here has suggested that there has been evidence of a variety of approaches utilised within the industry but that in general the findings have tended to support the views emerging from the literature. The process adopted has tended to be dependent upon: (a) the industry; and (b) the attitude of the dominant coalition. The research has seen that there is almost inevitably a more prescriptive approach adopted by the regulated, engineering based distribution business, and a more emergent approach developing among the more competitive businesses. However, this apparent association of a more control focussed approach within regulated businesses and of a more entrepreneurial approach within competitive businesses, is not the end of the discussion.

Some managers, like those of Seeboard and SWEB, have sought to inculcate more adventurous, and emergent, processes within regulated activities as discussed within Chapter's Ten and Eleven. Similarly, as discussed in Chapter Ten, the managers of Seeboard felt it necessary to restrain the emergent activities of its supply business managers because they were being too entrepreneurial. The new managers of SWEB, as discussed in Chapter Eleven, felt it necessary to reinstate more centralised processes while attempting to encourage an entrepreneurial culture: a hybrid approach which reflected the leadership/structure/process configuration or recipe that they had developed in their home industry. Only Eastern, which after 1992-1993 pursued a wholly emergent process, presents a classical approach to the issue.

Clearly, process is situational and determined by a variety of factors, the most important of which is most likely to be leadership. However, and returning to a theme developed earlier, there is also clearly a relationship between other issues, like market power, industry maturity and company ownership, which shapes the opinion arrived at by dominant coalitions, which may lead to different recipes, and different outcomes. EME's arguably emergent processes between 1990 and 1994 had a very different outcome from Eastern's emergent processes from 1994 onwards. What factors shaped this outcome? Can a distribution business witness entrepreneurial behaviour, or will the Regulator seek to restrain such behaviour as he has done with the case of metering services?² One interpretation that can be reached, and for which some evidence is available from this research is that emergent strategy may be more of a benefit in immature industries, but more prescriptive approaches can be more effective in more mature industries. Issues of this kind, which touch upon the debate about the suitability of certain forms of configurations at certain times in an industries development (Section 2.5.6.2.6), require future investigation, and are identified as future areas for the extension of this research.

12.2.3 Strategy Making at Different Levels

The research has clearly suggested strong support for the view that strategy making occurs at all levels of the case study organisations, itself an indication that a more emergent, less prescriptive approach to strategy process has been evident. Throughout the case studies, the dominant coalitions of organisation's have clearly been engaged in pursuit of approaches which conform to the strategy as pattern approach, even in regulated environments. This is not the case with all of the RECs, and for example the earlier case study of Manweb (Section 5.1) showed a more prescriptive, top down approach. However, the emergence of more divisionalised structures as the norm among the companies, and the establishment of separate business units as companies moved, and indeed were moved by the Regulator, from unitary organisations made such a development almost inevitable. An interesting contrast to this perceived situation is perhaps presented by SWEB, in the period following its takeover but prior to the divestment of its supply business. During this time, an approach which more closely resembles a 'strategy as perspective' approach (Section 2.1.1.5) was evident, as the new managers flattened the structure, and sought to establish a team based concept, a shared view, that overcame notions of divisional demarcation. This involved managers taking decisions at their own level, but the tone and direction of their thinking was heavily

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Metering services (instillation and reading) have traditionally been performed by distribution companies and hence were monopoly activities. The Regulator has viewed this as being anti-competitive and has moved to separate metering services from distribution companies and to encourage a free market.

influenced by the general vision for the company established by the leaders. The difference is based in the fact that the new owners of SWEB had a vision for the company, while companies following a strategy as pattern approach were more concerned with establishing operational perimeters defined by financial and market related goals.

12.2.4 Concepts of Leadership

Clearly, as discussed throughout Chapter's Nine to Eleven, many of these latter issues are closely linked. Style of leadership is closely linked to process, structure, devolved decision making and so on. It is therefore not surprising that the evidence gathered through this research identifies an increasing trend towards transformational leadership style, as decision making become mores devolved, and processes more emergent.

Transformational leadership appears to be related to emergent strategy, which itself is linked to operating a divisional structure, to autonomy in strategy making, and may often be linked to an approach which adopts a more resource based view. On the other hand, transactional leadership appears to be related to prescriptive strategy, to a functional structure, to more top down decision making and an approach more closely focussed upon the industry that the company operates within. All of the evidence presented within the cases suggests that a transformational approach is more appropriate to the current direction of the industry. Even within more regulated businesses, leaders are seeking a more entrepreneurial approach, establishing SBU's or cost centres where there had formerly been a unitary structure, and enabling business and functional level managers to seek opportunity within the wider organisational plan.

However, as the analysis also showed, there was some evidence of different styles of management within companies, as defined by Farkus and Wetlaufer (1996). Some RECs did employ generally transformational approaches, but adopted box style management in regulated areas. Other companies appear to have developed 'strategy', 'human-assets' or 'change' style approaches. What is clear from this analysis is that leadership is a crucial aspect of industrial and organisational transformation, and that a variety of variations have been witnessed within the industry. What has not been witnessed to any great extent is the development of the type of strategic leadership that was discussed in Section 2.3.3. Some elements of the necessary conditions are evident in all of the companies, but no evidence emerged that any of the case study companies were approaching the issue from a position heavily influenced by this new conceptualising of the issue.

A further exploration of leadership style and its impact would be of interest and is to be included among the future aims of this research. In addition, the issue of the relationship

between the composition of the dominant coalition, and the direction of strategy has not been fully developed. In one case, that of Eastern, the membership of the dominant coalition between 1994 and 1998 completely contradicts Miles and Snow's (1978) expected outcomes. This situation is in all probability linked to the non-traditional nature of the industry, and the fact that the potential for the wholesale application of their concepts is constrained, as will be discussed in Section 12.3.2. This is, however, an area of real interest and one that needs to be returned to in future research.

12.2.5 Importance of Structure

The case study companies provide a good example of how the RECs started with differing perspectives on the question of structure, but have developed towards a consensus. Of the three case study companies, SWEB began the period divisionally structured, Eastern functionally structured with a geographical focus, while Seeboard inhabited a very linear functional structure. As the industry matured, and the influence of the Regulator came to bear, all of the companies have moved towards divisional structures, and now as business separation takes effect, some have moved towards holding company structures. Largely, therefore, structure has emerged alongside strategy, although as the earlier analysis shows it has sometimes been the case that a company's structure has had to be amended to take account of strategic developments.

As the period has progressed, there has been evidence of more complex matrix structures and configurations emerging in multi-industry companies. Eastern, as Chapter Nine explored, has developed a complex network structure which allows its commodity trading business to drive most of its other interrelated activities, but which is clearly not a traditional functional structure. Other companies that remain within distribution, supply and generation for example, operate more traditional divisional structures, while companies with a single, regulated, industry focus are reverting to functional structures, but with an added aspect of innovation, to encourage entrepreneurialism. Throughout the research, the development of internal networks, and even the beginning of development of dynamic networks, has been increasingly evident.

12.2.6 Organising Themes

As discussed in Section 2.5.3, there is an expectation that qualitative research aimed at developing classification systems will endeavour to produce organising themes. The concept of organising themes, as discussed by Miller (1996), imagines that relationships between elements will emerge in any classification system, which identify its characteristics and at the same time explain the rationale underpinning any distinction set out in the system of classification itself. Work towards this thesis's contribution to this debate was

presented throughout the case study chapters, but the author believes that it would be appropriate to consider this aspect of the research after the next section, which deals with the appropriate nature of the chosen systems of classification applied throughout this research. Comments on organising themes are therefore presented in Chapter Thirteen.

12.3 Systems of Classification

In Chapter Eight, the key objectives to be pursued through the field studies in relation to Objective Three were outlined. These were that the core Miles and Snow organisational typology which was employed to classify the RECs at the end of Chapter Eight should be further explored to ascertain whether it was suitably robust for this task. In particular, following the analysis presented in Chapter Eight which identified the absence of a variety of key functions within the industry (see Section 8.4.3), where in the context of the model these missing functions were to be located, and how the model itself would need to be amended to accommodate these missing functions. This section aims to resolve this Objective, and Supporting Objective One to which it is related. Before moving on to attempt this stage of the research, however, it is briefly necessary to comment upon the robustness of the other systems of classification employed throughout the research.

12.3.1 The Research Framework

During the research, a variety of established frameworks were used to identify and classify the content of strategy in support of Objective One of this research. Principal among these were Pearce and Robinson's (1994, and Section 2.5.4) system of grand corporate level strategies, Porter's (1980, and Section 2.5.5.2) three generic strategies and Chrisman *et al*'s new competitive business strategy classification scheme (1988, and 2.5.5.4). Throughout the preliminary and field stages of the research comments were made as to the robustness of each and these comments are summarised here.

12.3.1.1 Corporate Level Systems

Generally, the Pearce and Robinson (1994) system of classification was found to be both comprehensive and useful throughout this analysis. The principal criticism remains that raised in Section 2.6.3: that Pearce and Robinson's view that each grand strategy can separately form the basis of a successful corporate strategy is not valid. The author remains of the view that all successful strategies will be based upon concentrated growth, and hence identified the need for formal combinations, some of which were suggested by the author in Section 2.6.3, and tested throughout the analysis. Another minor qualm about the validity of the system of classification concerns the use of the concentrated growth strategy in a regulated environment. For example, is it appropriate to utilise a

concept that includes within it commitments to 'increase rate of product obsolescence', 'advertising other uses', 'giving price incentives', or emphasising the importance of marketing in its definition (Pearce and Robinson, 1994, p.239). Any use of the concept in a regulated environment needs to be qualified and to emphasise the centrality of effective management of assets which is implied, but less well developed in their definition.

Without this necessary distinction, and in particular the necessity of acknowledging effective management discussed in Section 2.5.4.1, the model would have less value. It may be necessary simply to develop a new designation for regulated industries, like for example 'concentrated growth - monopoly', or using the phrase 'characteristics similar to those in a concentrated growth approach' to distinguish between competitive and non-competitive situations. Overall, and despite this concern, the framework was suitable to the chosen task. This is particularly so as the other grand strategies, such as market development, were found to be equally applicable within regulated and non-regulated sectors, albeit to a lower extent.

12.3.1.2 Business Level Strategies

Proposition 3, as discussed in Section 12.1.1 above, sought to critically appraise the Porter (1980) generic strategy model, and ended by suggesting that Porter's argument that one specific approach was to be exclusively pursued was not supportable. This research therefore supported a criticism of the approach developed by a variety of authors within the literature. Instead a model proposed by Chrisman *et al* (1988) was established as the preferred framework, as it overcame this deficiency of the Porter model, by allowing for a recognition not only that combined price and non-price weapons; an utility approach, could and were used, but also that companies could adopt differing approaches in the various different segments within which they operated. The analysis found that this extra functionality of the Chrisman *et al* model enabled it to fulfil the tasks required of it, although in truth the breadth of these tasks were not considerable.

The analysis established that the particular conditions prevalent in the main areas of business that the companies of the sample engage in: distribution and supply, dictate the business level strategy. In distribution, the companies do not engage in competition and hence do not have a business level strategy. Their behaviour is close to that associated with, and sharing similarity with, cost leadership but the author decided to avoid possible confusion and has argued against the identification and classification of business level strategies in the distribution business.

Within supply, due to the relationship between customer expectation, the Regulator, and the current immature state of the market, the only feasible business level strategies are those of the segmented utility, or segmented utility focussed variety as identified by Chrisman *et al.* As the evidence presented throughout this analysis has argued, all customers, whether business, commercial, agricultural or domestic, expect low costs and some form of added value service as an incentive to buy from a supplier. Other options, for example SWEB pre-takeover was pursuing a benefit approach emphasising quality but charging a premium for that quality; which caused a situation where “their prices were so high that nobody was buying from them (Southern Company, US003, 1999), have failed within the industry. Other evidence provided by interviewee’s concluded that added value was crucial, and that a focus cost approach alone would not succeed (CSW, US002, 1996). Partially, it may be argued, this was as a consequence of the fact that most RECs were offering very low tariffs as well as added value so a focus cost approach alone was not competitive. The only variations to the dominance of the segmented utility approach is that of the segmented utility focus approach, which recognised that certain RECs had specific targets: either whole markets or individual customers, requiring specific and enhanced product offerings. Reference to this phenomena was made in Section 5.5.1. Overall, therefore, the Chrisman *et al* system of classification was suitable to the chosen task.

12.3.2 Organizational Models

Objective Three of the research, as noted above, was to test existing generic management typologies in a regulated environment. While the corporate and business level systems of classification reviewed in Section 12.3.1 constituted part of this process, the main aim of Objective Three was to explore the applicability of organisational models, as discussed in Section 2.5.6. In particular, the Miles and Snow generic strategy typology (1978, and revised in 1986, 1995) was selected. The choice of Miles and Snow’s model was based upon the ‘explicit links’ it proposed between strategy, environment and process (Miller and Dess, 1993), which concurred with the linking objectives of this research. It was also well established, and although the subject of debate, widely regarded and frequently tested. It had, however, not been tested within a regulated environment. Section 8.3 featured a series of classifications for each of the RECs using the Miles and Snow concepts, both over the whole period (see Table 8.10), linking elements of strategy and drivers to explain and provide an ‘organising theme’ to the classification. Three of these classifications were then examined in the field study chapters, and conclusions as to the validity of the approach drawn.

To reprise this latter part of the analysis, the following criticisms were developed;

- ▶ does the appellation 'defender' appropriately and adequately describe the characteristics witnessed within the regulated distribution business of the REC, as assumed in the analysis in Chapter Eight?;
- ▶ does the typology as a whole describe the way in which innovation occurs within an industry where various factors prevent the operation and indeed existence of the classical 'prospector' organisation described by Miles and Snow (Section 2.5.6.2.2), and how should the conduct of this role - vital to the validity of the typology - be explained?;
- ▶ does the typology allow for and adequately describe organisations which operate within either (a) more than one market or (b) a market with more than one segment, and which exhibit different characteristics in some or all of each of these markets/segments?; and
- ▶ should the system be used at all in regulated environments, or do regulated environment's require a wholly new system of classification?

Arguably, therefore, the Miles and Snow typology as devised by the authors in 1978 and revised over the intervening period is not wholly suited to application in a regulated environment for the reasons given above. The model does not allow for the accurate classification of the behaviour identified throughout this research, and hence Objective Three is not resolved. As noted in Section 1.3 therefore, Supporting Objective One, which seeks to "make observations about the use of generic strategies in a regulated environment and suggest any amendments which may be necessary" comes into force. Supporting Objective One will be considered in the following section.

12.4 Supporting Objective One

The aims of Supporting Objective One were discussed in Section 12.3.2, as were the deficiencies identified with the existing Miles and Snow typology as applied to a regulated environment, and readers are referred back to that section. Within this section, the aim is to suggest a revised version of the model takes into account the particular conditions of the ESI, and which may be tested across a wider sample of similarly regulated industries in future extensions to this research. This debate will be illustrated by evidence derived during the course of this research, and is structured as follows: the implications of the deficiencies identified in Section 12.3.2 and some suggested amendments to accommodate these implications are discussed in Section 12.4.1; the proposed revised model is presented in Section 12.4.2; and the outcome of the use of the proposed new model on the current RECs is presented in Section 12.4.3.

12.4.1 Implications of Deficiencies

As discussed in Section 4.2.1, the ESI exhibits a number of differences which distinguishes it from a traditional free market. Principally, these differences centre upon the existence of regulation, which following the introduction of competition into supply can only be said to directly impact upon the distribution sector, but clearly does have an impact upon all companies operating in other sectors of the industry, as the field study chapters have demonstrated. Readers are referred back to Section's 9.3.1, 10.3.1 and 11.3.1 for further illustration. Consequently the author suggests that company behaviour within the industry, or industries, that have been the focus of this research can not be adequately explained by the Miles and Snow model without some form of amendment.

As discussed above, there are three fundamental reasons, which are discussed with reference to relevant examples derived from the analysis:

- ▶ the industry does not lend itself to prospecting. Within the Miles and Snow model, there was an explicit assumption that advances within an industry would be made by a prospector company (Section 2.5.6.2.2) which would fulfil the need for innovation within an industry, but having developed a new product/service would not possess the capability to sustain that product offering over the long term. The UK energy industry needs to innovate, but there are no prospectors, as narrowly defined by Miles and Snow, within the industry. The case studies provided evidence of this assertion. Eastern Group has been described as the most innovative of the RECs: firstly in establishing itself as the third largest non-nuclear generator; secondly in being one of the first of the RECs to establish itself as a supplier of gas and electricity on a national level; and thirdly by establishing its energy trading activity as a core business. However, Eastern is clearly not a prospector company in the classical sense. Eastern has not sought to innovate at the expense of efficiency, and it has undertaken its innovation with the express intention of sustaining and building upon its advances and becoming the market leader. A classification describing this activity, of innovating without prospecting, is not contained within the model, and consequently the model is found to be deficient;
- ▶ the industry experiences regulation. Within the Miles and Snow model, there is an explicit expectation that companies are in direct competition with each other. In the UK energy industry, companies are in direct competition in some industries but not in others but the existence of the Regulator impacts upon all of the companies within the industry, as discussed above. The testimony of managers from Seeboard and SWEB were particularly revealing in this respect. One possible solution to this problem is to formally recognise the two core businesses

within the industry: distribution and supply, as separate businesses altogether and devise separate classification systems. This is one option that will be considered below. However, at this stage in the process, it is necessary to say that the fact of regulation and the existence of monopoly businesses is unfulfilled by the model, which is consequently further deficient; and

- ▶ the industry is not a single product/market, but is multi-product and segmented. The Miles and Snow model does allow for differences in products and markets: as the existence of the analyzer concept (Section 2.5.6.2.3) clearly indicates, but it is questionable whether the model accounts for the fact that part of a company's activities may occur within a regulated environment.

In addition, a further reason emerges as a consequence of the nature of the industry and its core constituency:

- ▶ the industry does not permit the same degree of business failure that would be permitted within a more traditionally competitive market environment. Energy is a strategic industry. The fact that regulation exists both constrains excessive behaviour (either in terms of earning profits or encountering risk) but also ensures profitability (in at least the monopoly distribution business, and through the encouragement of competition/restriction of anti-competitive processes it at least enables an organisation to make profits in supply). Therefore, there is some doubt in the author's mind that the classification 'defender' is sufficient to describe the 'less well defined' activity that is occurring within the industry.

In short, therefore, there is a clear need for the following within any revision of the existing model:

- ▶ a classification that acknowledges that incremental innovation can occur;
- ▶ a classification, or set of classifications, which account for the existence of the monopoly sector within the industry;
- ▶ an acceptance that different classifications can be evident within the same company as it attempts to serve different market segments or industries; and
- ▶ a classification which enables the distinction between reactor type behaviour, and behaviour which is more appropriately described as follower behaviour.

12.4.2 Suggested Revisions

The suggested revisions to the model aim to make it applicable in a regulated, or partially regulated environment. The author's intention is to retain the original features of the model as much as possible and only to suggest change which is deemed to be a real necessity. The result is the revised model presented at Table 12.1 which has five basic

archetypes, although these five archetypes expand to incorporate a further three archetypes to account for the existence of monopoly activities. Each of these archetypes are therefore briefly discussed, with an emphasis placed upon how they interrelate and how they address the deficiencies identified above.

Table 12.1: Organizational Classifications in a Regulated Environment

12.4.2.1) The Cautious Prospector 12.4.2.1.1) The Cautious Prospector (Monopoly)
12.4.2.2) The Analyzer 12.4.2.2.1) The Analyzer (Monopoly)
12.4.2.3) Defender
12.4.2.4) Monopolist 12.4.2.4.1) Monopolist-Reactor
12.4.2.5) Follower

12.4.2.1 The Cautious Prospector

As discussed above, there is a need for an archetype which undertakes the role of the prospector in pursuing innovation and identifying opportunity, but which does not encounter the same degree of risk as the prospector would expect in the original Miles and Snow model. In addition, there is a need for the archetype to acknowledge that having innovated, the company will aim to remain within the new area of business, product or service rather than voluntarily or forcibly retiring from that new area, product or service. The author therefore suggests the designation 'Cautious Prospector', which would have the following features:

- ▶ a dual core focus, wherein one part of the company would be engaged in seeking new opportunity through incremental market development activity or innovation, while the other part would continue to seek effective and efficient management of ongoing business activities. It is more likely that a cautious prospector will be seeking market development or innovative opportunities within related business areas; and
- ▶ an intention to integrate any new business development through successful innovation into its core business area, to be managed using a concentrated growth based strategy aimed at seeking effectiveness and efficiency into the new area in the shortest possible time.

The cautious prospector therefore differs from the classical prospector in that it will endeavour to erect barriers to entry around its new areas of business activity, through

rationalising the processes and outcomes, with the intention of integrating the new area within its core, whereas the classical prospector will not possess such capabilities and will soon be forced out of the new market/product/service by analyzer organisation's which will improve the effectiveness of its processes. In effect, the cautious prospector is closest to the classical analyzer organisation but takes on the new product development itself, rather than mimicking the advances of others. The cautious prospector's actions will still be mimicked by analyzer's if it can not erect effective barriers to entry, and so it does perform the role of the prospector in pushing the industry forward. It is just that that is not it's specialist role in an industry.

Because it does not specialise in innovation, and because there is unlikely to be any companies performing that role, the author contends that there are likely to be more than one cautious prospector within an industry, so sharing the role. The industry provides a variety of examples to support this contention. In gas marketing and supply, Midlands Electricity and Eastern Group were the first RECs to develop interests, swiftly followed by all but one of the other RECs. In generation, the partners in the Teeside Power project: including Northern, SWALEC, SWEB were among the first to enter this new area. In telecoms, the cautious prospectors were Yorkshire and Northern, while Yorkshire were also cautious prospectors in cable television. EME's entry into security was also cautious prospecting, although ultimately less successful than the others mentioned here. Throughout the period, the companies have further shared innovative activities: Eastern into ownership of gas reserves, Midlands into overseas investments, and so on.

Companies will therefore be cautious prospectors in certain aspects of their business, but may adopt a different archetype in others. Clearly, for an organisation involved in a variety of sectors: distribution, supply, generation, telecoms and so on, there is the potential to inhabit several archetypes, and these different archetypes may not simply be explained by the differences between regulated and non-regulated activities.

12.4.2.1.1 The Cautious Prospector (Monopoly)

All of the elements captured in the concept of the cautious prospector are also evident in the related archetype - the Cautious Prospector (Monopoly). Regulated activities, in the same way as non-regulated activities, require innovative organisations to push them forward, and to develop new opportunity. However the extent of the ability to innovate is inevitably less profound in a regulated environment, which explains the identification of a supporting classification. Cautious prospector's (monopoly) will be concerned simply with finding new ways in which to improve the performance of their monopoly businesses,

which as has been observed during the preliminary and field stage analysis inevitably involves limited market development in support of a concentrated growth strategy.

To illustrate the difference between classifications, and demonstrate the need for a cautious prospector even within a regulated environment, a number of examples from the preceding research are quoted. The activities of Northern and SWEB in particular show how a cautious prospector (monopoly) can engage in market development within a distribution business, as does Seeboard's activities in buying and operating the distribution network of London Underground. More dramatically, Eastern and London's decision to merge their distribution businesses, and SWEB/WPD's decision to purchase the distribution business of SWALEC are all examples of similar behaviour. Indeed, these latter two decisions are equally as dramatic as some of the examples provided in Section 12.4.2.1, except that manage their businesses more effectively as an option in seeking greater market share, is not open to companies operating within this sector.

12.4.2.2 The Analyzer

The concept, and importance, of the analyzer in the proposed revised model is identical to the concept of the Analyzer discussed in Section 2.5.6.2.3. Consequently, it is not intended to explore it in great depth at this time. However, it is necessary to reiterate that analyzer's will be seeking to adopt successful innovation's identified by cautious prospector's within the non-regulated business area, and, if possible, to improve upon the product/service in order to more effectively compete. The examples of this behaviour from the preceding analysis are numerous. All of the RECs which followed Midlands and Eastern into gas, for example, exhibit analyzer behaviour. All of the RECs which sought to increase their market share of the wider electricity supply business, while defending their home territory, also exhibited analyzer tendencies. A striking example is provided by all of the companies, of which SWEB as discussed in Chapter Eleven is a prime example, who have followed Eastern Group's route into the area of electricity trading. Eastern identified a new area of business, through cautious prospecting, and now a variety of the other RECs are seeking to obtain market share in that new area, having accepted from the example of Eastern Group that the opportunity is both real and available.

12.4.2.2.1 The Analyzer (Monopoly)

The relationship between the analyzer and the analyzer (monopoly) follows that of the cautious prospector and its monopoly counterpart. Advances by cautious prospector's (monopoly) will be adopted by analyzer's (monopoly) in order to improve their own organisational performance. It should once again, however, be noted that the lack of competition in the monopoly businesses means that the objective of companies adopting

this characteristic would be to improve organisational effectiveness and efficiency rather than increase market share. There are currently few examples of this kind of behaviour within the industry, reflecting perhaps the limitations that operating within a monopoly industry places upon its inhabitants. Nevertheless, as discussed previously in relation to Proposition 5, the author argues that in distribution there will be an increasing tendency towards consolidation which will see the remaining RECs becoming analyzer (monopoly) organisations, and following the lead of companies like Eastern, London and WPD.

12.4.2.3 The Defender

The concept, and importance, of the defender in the proposed revised model is identical to the concept as discussed in Section 2.5.6.2.1. Consequently, it is not intended to explore it in great depth at this time. However, it is necessary to reiterate that defender's will be seeking to manage their core businesses as effectively and efficiently as possible, and in that respect there is no difference between the regulated and the non-regulated sectors. Defenders, in the classical sense, will not be looking to incorporate new business activities into their operations, and in the context of the ESI therefore will have remained focussed upon supply and distribution throughout the period.

It has been noted, however, that the ESI is a segmented industry and therefore it is possible to argue that this debate needs to be widened. Some RECs, for example Seeboard, have adopted a defender like approach in its supply activities - that is to say it has concentrated upon retaining and protecting its existing electricity supply customers. However in gas, it has been more of an analyzer, following the leads of cautious prospectors in trying to enter and build market share within that industry. Eastern, on the other hand, has been more of a cautious prospector in each aspect of its supply business: in offering improved product development to existing customers, attempting to win new customers through innovative utility based approaches, and seeking to develop a presence in the new market of gas.

12.4.2.4 Monopolist

The choice of the classification 'monopolist' as opposed to 'defender (monopoly)', which would appear to conform to the pattern established with earlier archetypes, is deliberate. The author argues that there are two forms of this archetype: the monopolist, and the monopolist-reactor, which require distinction and mitigate against the use of the 'defender (monopoly)' appellation. The monopolist is identified as a company which pursues assiduously the concentrated growth approach identified in Section 2.5.4.1 and discussed throughout. This therefore is the archetypical monopoly company, under regulation. It manages its monopoly assets for maximum profitability, but also meets all of its quality

and public service obligations. It does not seek to develop into new areas of market or product development, and is epitomised by companies like Manweb, and London Electricity, prior to each's takeover. It is interesting, of course, to speculate as the author has done in relation to Proposition 5, that as regulation becomes ever more demanding then this position may become less and less tenable, as more and more distribution companies adopt cautious prospector (monopoly) or analyzer (monopoly) approaches. The approach does, however, at least possess the potential to maximise the profitability of its operations under present conditions.

12.4.2.4.1 Monopolist - Reactor

The same can not be said for the monopolist-reactor. In Section 4.2.1, the tendency of SOE's to produce reactor-like organisations: organisations which either had poor strategy, which were wedded to outdated strategy or had no strategy at all, was noted. In the early days after privatisation, there was certainly evidence of companies continuing to operate along these lines, and failing to grasp the opportunities offered to them by the changed paradigm. This charge could be placed at the door of some surprising companies, among them Eastern Group as Chapter Nine discussed. The possibility of monopolist-reactor's existing within the current electricity industry is extremely remote. The actions of the Regulator, and in particular the five-yearly reviews, make the chance of companies persisting with a failing approach extremely unlikely. However, given the ultimate objective of using this revised framework with other industries, it is necessary to include it for the sake of comprehensiveness.

12.4.2.5 Follower

The final classification identified within the model is that of the follower. The decision to avoid the use of the term reactor was taken to reflect the fact that in a closed, homogenous, and regulated industry like the UK energy industry, it is unlikely for companies to be true reactors. As the previous section discussed in relation to monopolist-reactors, the correctness of recipes emerging from the actions of cautious prospectors in both regulated and non-regulated arenas will eventually cause companies that have been lagging behind to follow their lead. This is not identified as reacting because, as this research has clearly demonstrated, the companies eventually do get to the right strategies, and are not simply reacting or firefighting in order to attempt to remain competitive. The designation also reflects the possibility that a company will decide, after some time and accumulating evidence, to follow their peers into a particular industry. The example of London Electricity and generation falls into this category.

Ultimately, the follower is again a classification that is more likely at the beginning of a privatisation than at its end. If the privatisation is rolled out as was the case with UK energy, as described in Section 4.2, companies are provided with time to work out their strategic positions which would nominally allow followers to develop an appropriate strategic model before any such failure to do so would result in a threat to their existence. The same may not be the case in industries exhibiting a different approach to privatisation and the introduction of competition. London was arguably a follower in the area of electricity supply until its first takeover, and now it operates one of the larger supply portfolio's within the industry. If its predominantly domestic customer base had been open to competition in 1990, this may not have been the case.

Table 12.2: Reclassification of the Sample

Company	Separate Classifications	Overall Classification
EME, owned by PowerGen	Distribution: Monopolist Supply: Analyzer Generation: Analyzer	Analyzer/Monopolist (PowerGen)
Eastern	Distribution: Cautious Prospector (Monopoly) Supply: Cautious Prospector Generation: Cautious Prospector	Cautious Prospector
London	Distribution: Cautious Prospector (Monopoly) Supply: Cautious Prospector	Cautious Prospector
Manweb, owned by ScottishPower	Distribution: Monopolist Supply: Cautious Prospector Generation: Analyzer	Cautious Prospector/Monopolist (ScottishPower)
Midlands	Distribution: Monopolist	Monopolist
Norweb, owned by United Utilities	Distribution: Monopolist	Monopolist
Northern	Distribution: Monopolist Supply: Analyzer	Analyzer/Monopolist
Seaboard	Distribution: Monopolist Supply: Analyzer	Analyzer/Monopolist
Southern, part of Scottish and Southern Energy	Distribution: Analyzer (Monopolist) Supply: Analyzer Generation: Analyzer	Analyzer
SWALEC	Not Applicable	Not Applicable
SWEB	Distribution: Cautious Prospector (Monopoly)	Cautious Prospector (Monopoly)
Yorkshire	Distribution: Monopolist Supply: Defender	Defender/Monopolist

12.4.3 Reclassifying the RECs

The model presented above allows a different classification of the remaining RECs than

that presented in Table 8.9. The reclassification of the sample takes into account the new appellations identified above, and also the concern that as many of these classifications as are necessary to achieve accuracy are employed, even if this leads to separate classifications for the company's main businesses, and joint classifications in some of the companies engaged in more segments of the industry.

The classifications of the companies presented above, in Table 12.2, show a quite marked difference from that presented in Table 8.11. The principal differences rest with the number of companies formerly identified as analyzers who are now re-classified as cautious prospectors, and the number of defender companies which are now recognised and distinguished as monopolists. The classification's presented in Table 8.9 did not allow for innovation to occur within the industry, and the proliferation of the new cautious prospector classification shows not only how innovation occurs, but also suggests that within an industry like the UK energy industry the responsibility for innovation is shared among a variety of companies. The re-classification suggests that at this particular moment Eastern, London, and ScottishPower are driving the supply industry forward (a case may arguably also be made for PowerGen and National Power in this respect), while Eastern, London and SWEB, and arguably Southern and Scottish Energy, are driving the distribution industry forward.

In Table 8.11, there was a proliferation of companies identified as defenders principally because of their sole involvement in distribution. However, as noted above, the author believes that classifying a monopolist as a defender is not necessarily a valid assumption. The re-classification presented in Table 12.2 suggests that there are now very few defender organisations within the industry, although there are still several monopolist organisations which adopt defender-like characteristics. The re-classification presented in Table 12.2 has considerable significance in the light of Proposition's 2 and 5 in particular which estimate that increasingly organisation's will need to consolidate to prosper within the industry. This inevitably implies that companies will either need to become more pro-active and seek consolidation opportunities, or risk being taken over by predatory organisations themselves seeking consolidation.

12.5 Concluding Remarks

The aim of this chapter, as discussed in Section 12.0, was to evaluate the progress made towards the resolution of the key objectives of this thesis during the field stage of the research, following on from the earlier preliminary stage work. In particular, this chapter has sought to:

- ▶ verify the ten tentative propositions identified in Chapter Eight, to be used as hypotheses in future research; and
- ▶ address the issue of whether a selection of existing management models and theories are applicable within a regulated environment. The outcome of this latter objective produced a series of suggestions for the amendment of a well established management model, which will itself require testing in future research.

In short, therefore, this chapter has concluded the initial objectives of this thesis, which were to explore, understand, and begin to develop theory about the behaviour of newly formed organisations in a transformation situation, when that transformation was as a result of the privatisation of a former nationalised industry. This initial exploration was undertaken with reference to the UK electricity industry, about which a substantial analysis has been presented, and deep understanding developed. The analysis presented within this thesis creates a platform from which the author intends to extend the research into other similarly nationalised industries within the UK: in particular water, gas, telecoms and rail, and outside the UK where the lessons of the UK electricity experiment are still being applied.

13.0 Introduction

The aim of this chapter is to pull together the results of the analysis presented in the previous chapters. In particular, this chapter focusses upon the extent to which the aims and objectives of the research, established in Chapter One, have been met, and in so doing the contribution that this study makes to extending the wider strategy literature. This chapter also seeks to outline any deficiencies or concerns that the author has in respect of the validity of the research, and provides an opportunity to explain how these have been overcome. Furthermore, the chapter also considers the impact that the research, identified earlier as applied research, necessarily has for practical management application in a series of recommendations for utility managers. The chapter concludes with the author's estimation of the future direction of the research, as identified throughout the thesis.

13.1 The Aims and Objectives and the Extent That They Were Met

The overall aim of this research was to develop an understanding of the transformation of the ESI following its privatisation in 1989, in respect to the strategic behaviour of the Regional Electricity Companies (RECs) created by the legislation. This broad objective was identified as an exploratory study, with the longer term aim of enabling a wider review of corporate transformation among all of the companies created by the various privatization's around this time. A suitable and appropriate research design was identified, and secondary and primary data was successfully collected, reported and analysed. At the beginning of the study, four key objectives were defined:

- Key Objective One:* To identify viable corporate and business levels strategies within a regulated environment. This objective involves understanding the nature of the strategies developed. It also involves understanding how different corporate and business levels strategies can be combined to provide an effective overall strategy, and the relationship between an organisation's strategy and its structure;
- Key Objective Two* To identify the factors driving the strategic direction of the RECs, as identified in Objective One, and to understand the nature of their impacts;

Key Objective Three An evaluation of the effectiveness of existing generic management typologies in explaining the strategic content identified in Objective One.; and

Key Objective Four To elaborate a set of hypotheses that capture the key elements of the outcomes of the above objectives, for future development in subsequent research.

The author argues that these key objectives have been met. Identification of viable corporate strategies and strategic drivers was presented and summarised in Chapter's Eight and Twelve, the process of classification summarised in Chapter Twelve, and the development of a set of propositions also presented in Chapter Twelve.

In addition, there was one supporting objective, concerned with suggesting a possible solution to any problem experienced in relation to Key Objective Three, in relation to the application of existing systems of classification within a regulated environment. Thus:

Supporting Objective One Subject to the outcome of Key Objective Three, to make observations about the use of generic strategies in a regulated environment, and to suggest any amendments which may be necessary to make any established approaches identified in Objective Three more useful for the classification of regulated industries.

The demands of Supporting Objective One was met in Chapter Twelve, and contribute towards the further direction of research to be discussed below. Other elements, which were related to but not intrinsic to the resolution of the objectives, emerged inductively, and these will be discussed in due course.

13.2 Summary of Key Findings

Many of the key findings resulting from this research have been presented during the course of the thesis. Therefore, in summarising these findings, the author has chosen to provide a brief reprise of the substantive findings, and to refer the reader back to the relevant section of the work. In essence, there are five key findings to report, and these are presented in the following sections.

13.2.1 The Existence of Strategies and Combinations

Objective One aimed at establishing whether the companies of the study had developed

distinct strategies since privatisation. The analysis has clearly shown, as reported in Chapter Eight, that distinct strategies have been evident, but that the extent of the distinction between differing strategies has tended to narrow as the industry has matured¹. While the companies engaged in a degree of strategic experimentation at the beginning of the period, making formal classification difficult, a series of archetypical strategy formulations have become emerged from the industry over this period. These were:

- ▶ the local service provider;
- ▶ the integrated energy company by organic growth; and
- ▶ the integrated energy company by acquisition.

The local service provider described an organisation which had retreated from the competitive sectors of the industry, and was focussing upon its core distribution industry. Companies of this type were characterised by their concern for cost control, and their strategic content was most strongly influenced by the industry regulator. The other two archetypes described organisations which continued to pursue both competitive and regulated businesses; a multi-industry combination of supply, generation and distribution. However, the scope of their engagement with the industry was determined by their attitude towards the question of growth: organic growth companies sought growth incrementally, while acquisition companies sought growth more dramatically. In addition, it was commonly the case that integrated organic growth companies tended to have a national focus, while integrated acquisition companies tended to have a regional or international focus. A fourth archetype, the multi-utility, was also identified but was increasingly becoming less viable as companies returned to more of a core focus. The genesis of these archetypes was described in more detail in Section 8.1.1.1.

The designation of these archetypes is tentative, reflecting the fact that the UK, European and global industries are still in a stage of flux, and hence the archetypes are subject to change and refinement. However, the evidence in Chapter Eight suggests that patterns of grand strategy have developed to support the distinct classifications developed above, suggesting the emergence of the sort of organising theme: of an interrelationship between strategic direction, strategic content and strategic drivers, as discussed by Miller (1996). The qualitative development of this system of classification requires further investigation through multivariate analysis, again as per Miller's formulation.

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As noted throughout this study, there is a need to distinguish between broad strategy making: domain selection and navigation, where similarities have emerged, and tactics, which may vary significantly within strategy frameworks which are ostensibly similar.

13.2.2 The Existence of Key Drivers

Objective Two aimed at establishing the identity of the key drivers of strategy within the industry, in order firstly to contrast them with those evident in traditional market models, and secondly to enable an understanding of how the strategic content of the companies was arrived at. The discussion in Chapter Twelve suggested that different factors affected different companies in different ways, but that once again some possible organising themes were appearing from the research that require further attention. Specifically, the field work Chapter's Nine to Eleven suggested that the lower an organisation's reliance upon regulated income, the lower would be the impact of regulatory factors upon the company. There was also a probable relationship between an organisation's size, and its ability to manage the impact of the variety of external factors.

These findings are, to a certain degree, both predictable and logical. If the following definition of market power is used: 'a possibly nebulous concept, but intended to convey the influence over the industry held by a company, expressed through its market share, record of innovation, net worth *et cetera*', then it is clear that external influences: competitors, buyers, suppliers *et cetera*, will have a lesser impact simply because possessing market power enables a company to overcome such influences. More interestingly, perhaps, is the finding that market power within the ESI equates roughly to the extent to which a company has remained involved in non-regulated activities, with the result that companies with market power are less influenced by the industry regulator. The precise impact of the Regulator upon strategy is a very important issue, and is a key area that the author wishes to explore in future research.

Overall the author concluded that the influence of the Regulator was strong, even within those parts of the industry that were outside of his jurisdiction. It was perhaps the key influence, of even greater importance than that of a company's owners; an influence which increased in magnitude within the industry after 1995. The author was also able to comment upon the significance of the drivers contained within the 'competitive forces' versus 'resource based view' debate. The findings tended to support the view of Grant (1991) who argued that strategic decisions should be driven both by an awareness of competitive forces, and an organisation's own resources base. The findings also suggested that the role of the leadership of an organisation was crucial.

13.2.3 The Suitability of Models and Techniques

The analysis presented in Chapter Twelve indicated that caution needed to be exercised when seeking to employ a variety of widely known and regarded management models upon organisations which operate within a regulated environment. The analysis concluded

that organisations operating in both regulated and non-regulated sectors will almost inevitably have to develop a divisional structure to provide the appropriate skills and support to each activity: partially to acknowledge regulatory requirements, and partially as a result of the differing skill mix required in competitive and non-competitive environments. This fact needed to be acknowledged in the use of models, to the extent that a model, like Porter's (1980) generic strategy model, could not be applied to a company if it was engaged in different sectors. Other models, like Pearce and Robinson's (1994) model of grand strategy needed to acknowledge that companies in regulated environments exhibited 'concentrated growth'-like strategy, rather than a pure version of concentrated growth.

However, the general conclusion reached was that with the judicious use of caution in application of specific labels, and the use of model's like that of Chrisman *et al* (1988), which through its intended homogeny does allow for organisations operating in differing sectors, several existing models were of value in the analysis of behaviour in a regulated or partially regulated environment. The one exception to this view was the 'organisational systems' model of Miles and Snow (1978). The Miles and Snow approach was intended for use in associating a variety of factors for individual groups of firms and within industries: strategy, structure, process, environment, leadership *et cetera*. The findings of the research suggested that the 1978 model and subsequent amendments were not wholly applicable in a regulated or partially regulated environment, as discussed in Chapter Twelve. Accordingly Supporting Objective One was required to be pursued.

13.2.4 Suggested Amendments to Models and Techniques

The analysis and suggested amendments developed under Supporting Objective One were presented in Section 12.4. This section explored the deficiencies identified by the author, and their implications for the use of the model in a regulated environment, and a series of suggested revisions. These suggested revisions took the form of the addition of several new classifications, and the amendment of several old classifications, to result in the following model:

- ▶ The Cautious Prospector, and the Cautious Prospector (Monopoly)
- ▶ The Analyzer, and the Analyzer (Monopoly)
- ▶ The Defender
- ▶ The Monopolist, and the Monopolist-Reactor
- ▶ The Follower

The proposed revisions make, in the authors view, the model suitable for application in a regulated or partially regulated environment. The validity of the proposed amendments require further analysis and empirical testing in later research.

13.2.5 Establishing a Set of Hypotheses

Objective Four of the research represented a method by which the analysis conducted in Objective's One and Two could be transformed into a state suitable for empirical testing. Consequently, a series of tentative propositions were established in Chapter Eight, following directly on from and seeking to summarise the observations made in Chapter's Five to Seven. There were to be ten propositions, five addressing inductively identified behaviour in relation to strategic content, and five in relation to strategic drivers. The tentative propositions were then subjected to further testing by examination during the field work section of the thesis, Chapter's Nine to Eleven. The whole process and validity of the ten propositions were discussed, and their legitimacy debated in Chapter Twelve.

The aim of this process was to develop a set of working hypotheses that could be employed by the author in future research which would (a) have been developed using a robust research methodology, and hence which were internally valid, and (b) which would have a resonance among companies which operated under the same or similar conditions since their privatisation. The assessment of their legitimacy in Chapter Twelve reached the following conclusions:

- ▶ that while all of the propositions developed could not be said to apply in all of the cases, they did resonate with the experiences of the sample companies; and consequently
- ▶ the ten were all accepted unamended at this stage, and could be used in further confirmatory research across a wider spectrum of privatised public utilities.

The author therefore proposes that the following ten hypotheses be accepted for use in future research:

- H1 companies will employ a limited concentrated growth approach in ongoing operations within their regulated businesses
- H2 companies will seek to employ approaches to develop critical mass in most if not all of their continuing un-regulated businesses
- H3 the approaches mentioned in H2 will of necessity involve a combined price and non-price generic approach, so backing the arguments of a variety of authors against the conclusions of Porter (1980)
- H4 'new core' businesses will evolve incrementally as companies take on the responsibility for identifying viable concentric diversification

- H5 companies will inevitably seek consolidation, either vertically or horizontally, regardless of the regulatory regime within the industry, supporting the work of Helm and Jenkinson (1997)
- H6 that the influence of an industry regulator upon a company's strategy will depend upon the relative proportion of its profits generated from regulated activities
- H7 that companies pursuing a strategy across a range of sectors will be subject to influences from a variety of different drivers, but that the extent of the influence each exerts will be situational
- H8 that organisational size will be a key factor in an organisation's management of its relationship with strategic drivers
- H9 that companies will seek to develop greater control over the impact of strategic drivers by developing key internal capabilities to achieve sustainable competitive advantage
- H10 that ownership is the key influence over strategy

The author argues that the above hypotheses provide a potentially significant opportunity to understand the nature of strategic content, and the impact of strategic drivers, in a regulated environment. The initial deficiency identified in the literature suggested that not enough knowledge had been obtained with respect to how companies adapting to strategic reorientation following privatisation, and of the need for this knowledge as the experience of privatisation spreads across the global economy. This set of propositions, developed from a single industry study, allow for the development of an understanding about the options and constraints facing companies in these situations, which can conceivably have a wide application.

The author acknowledges that further 'testing' or 'piloting' is necessary before they be applied to a wider sample. This necessary next step is intended to further provide assurances of their inherent validity. However, as the next stage of research is intended to be a more quantitative process, involving the development and testing of a research instrument, this activity will be undertaken as part of the traditional questionnaire development process.

13.2.6 Summary of Incidental Findings

This study has sought not only to resolve the four key objectives outlined above, but has also sought to provide a degree of commentary upon a number of other issues which have emerged during this study. These issues, while peripheral to the original aims, still represent areas where knowledge has been extended, and hence a contribution made, and the author therefore wishes to place these on record. There are a number of such areas.

- (i) The issue of whether the companies have 'a strategy' or do they tend to exhibit 'a network of partial strategies', was raised in Section 2.1.2.1, in relation to work by Feurer *et al* (1995). The research has clearly suggested that the latter scenario is certainly true for the vast majority of companies over this period. While at the beginning of the period, discussion of 'the strategy' may have been appropriate, latter developments towards divisional structures, strategy making at different levels within the firm, and business separation have clearly shown the existence of networks of partial strategy. The development of internal or dynamic networks (Miles and Snow, 1992) among a number companies strengthen's the authors conviction that this is indeed the case;
- (ii) The impact of organisational structure was raised in Section 2.4. The research has shown a general movement away from functional structures towards more complex divisional structures, as will be discussed immediately below. The research also suggested that structure has tended to emerge alongside strategy, although in a number of companies in the early part of the period structure followed strategy, which was interpreted as evidence of an organisation reacting to changes in, rather than seeking to manage, its environment;
- (iii) The existence of network organisations, was raised in Section 2.4.2, and has been very considerably supported by the research presented to date. Many of the RECs have identified an internal network as a viable structural configuration which encourages flexibility alongside cost effectiveness and efficiency. It is interesting also to note that some companies have used the perceived success of their emergent internal networks to consider 'upgrading' to the next step, the more dynamic networks envisaged by Miles and Snow (1992);
- (iv) The industry has tended to witness a variety of leadership styles, with transactional forms more common initially. However, these more 'command and control' forms of leadership have tended to become less prevalent as companies evolved internal or dynamic networks to enhance their ability to offer superior performance. Consequently, more transformational forms have emerged, with Eastern Group presenting the most definite example. However, as companies have moved away from the more competitive sectors of the industry, developing the local service

provider archetype discussed in Section 13.2.1, transactional forms have tended to reemerge. As discussed in Section 13.6, exploring the question of leadership has been identified as an area for future research.

13.3 Conclusions

The author concludes that the primary aims of the study have been successfully accomplished. Furthermore, the possible limitations upon the validity of the study identified in Section 1.6 have not resulted in any lowering of confidence in either the methodology and findings of the enterprise. The author has striven throughout the research process to acknowledge possible limitations, acceptable resolutions to possible limitations, and areas where caution is required in respect of the applicability of the research presented here. Consequently, the author has confidence in the findings presented here, and in the value of the contribution this research has made to the intended field. The precise nature of the contribution will be examined in the following section.

It is perhaps appropriate at this point to comment upon and critically evaluate the robustness of the chosen research methodology. Readers are reminded that the chosen methodology was:

- ▶ essentially phenomenological, and hence interested in the perceptions and views of actors involved in the complex relationships the research was intended to understand; and was consequently largely qualitative, in that this investigation employed case studies rather than more quantitative methods of investigation and analysis; and
- ▶ initially inductive, but increasingly deductive in that the author began the analysis by adopting the view that decisive factors or conclusions would emerge from an initial preliminary stage (which used a form of content analysis, combined with other forms of textual analysis and data triangulation) to develop a series of concepts which would then be deductively explored in the field work stage. Overall, the research was identified as exploratory, leading to the development of a number of key themes, or concepts, which would be tested in future confirmatory research.

The author considers that the chosen research methodology has proven wholly appropriate for the intended objectives of this research. At no point in this exploratory study have major methodological difficulties emerged which have caused the author in any way to doubt the veracity of the process or outcomes, and this confidence is reflected in the confidence expressed above in relation to the successful achievement of the thesis' aims

and objectives. The author notes the concerns with respect to more qualitative approaches to research, as discussed extensively in Chapter Three. However, while not agreeing with the view that quantitative approaches are necessarily inherently superior to qualitative approaches; having argued that the essential aims and objectives of this research were better served by the chosen approach, the author concurs that the proposed next stage of research would benefit from a more quantitative approach, if only to provide an opportunity to enhance the process of triangulation undertaken throughout by offering an alternate approach to data collection and analysis. Subjecting the qualitatively determined conclusions of this research to quantitative analysis in extended research would also help to satisfy more of the conditions of the use of scientific methods, and strengthen the confidence that could be placed in the outcomes.

13.4 Contributions

In Section 1.4, the intended contributions that this research sought to make were outlined. This section aims to comment upon the extent to which these contributions have been achieved. The study's principal contribution to knowledge rested with its attempt to overcome the deficiency in the literature identified in Section 1.1, and further explored throughout Chapter Two. The author argued that the privatised industries of the UK are of considerable strategic importance, and as a consequence establishing an understanding of the process of strategic choice, and the availability of viable strategic options open to these companies should have commanded greater attention from management theorists. This was especially the case in the light of the position of the UK as a test-bed for privatisation, and as a continuing source of guidance and example to privatisation processes across the world.

The author argues that a much improved understanding of the process of industrial transformation, and strategic realignment among the companies created by the privatisation has resulted from this research. The analysis has presented a wide range of strategic archetypes: both successful and unsuccessful, which explain the process of strategic development during the evolution of the industry since privatisation. The author argues that the research has demonstrated the rationale that underpins such archetypes, and that the process has fully related this research to the wider academic literature, so providing a clear and grounded understanding of what has transpired.

The research has also provided a clear analysis of why the industry has developed in the fashion that it has. Throughout the work, emphasis has been placed upon the key drivers of strategy, and through this analysis a contribution has also been made to the on-going

question of relevance and importance of alternate views of strategy making within the firm. As will be seen in the section of this chapter dealing with intended extensions of the research, the author views this aspect of the research as only partially completed, and has established this area as a key objective for the future development of the on-going research.

Finally, the research has provided a further opportunity to subject existing management models and concepts to testing, and in particular has contributed by conducting this analysis within an industrial setting that is uncommon within the literature. As Section 12.3 showed, many existing conceptual models have been seen to perform well in regulated environments, if, that is, caution is exercised in the definition of terminology and their application. However, Section 12.3 suggested a variety of amendments to one long-established approach in particular which the author believes can add an extra degree of utility to the conceptual understanding of the dynamic relationship between companies in regulated, or partially regulated, environments. This contribution, like others noted above, does however require rigorous testing to ensure the validation of the conclusions drawn.

13.5 Recommendations

Early in the thesis (Section 3.1.4), the author indicated that he considered the work presented here to be applied research, as opposed to pure research or consultancy. Inevitably, therefore, the work is intended to have value for organisations experiencing similar conditions to the companies studied. The purpose of this section is to make some tentative recommendations to fulfil this requirement of the research process. The recommendations will be based upon the conclusions drawn from the preceding work, which is based upon an observation of ten year's of industrial transformation within the ESI. Inevitably, some caution needs to be taken in making, and indeed following, these recommendations. Without verification from other industrial sectors, which forms a significant element of the directions of future research, it is necessary to acknowledge that these recommendations can only be said to apply directly to companies which have undergone the same evolutionary process as the RECs. However, and despite that concern, the author believes that the findings of the research still provide some valuable general lessons for the managers of organisations attempting to identify viable strategic positions in a post-privatisation industrial setting. The author initially suggests four principal recommendations:

13.5.1 Understand the Objectives of Industry Regulation

The study has shown that under conditions similar to the ESI, regulatory influences are

considerable. Furthermore, even companies that have developed considerable market power are inevitably influenced by the industry regulator, while the research has suggested that companies with low market power are influenced extremely heavily. Additionally, the range of objectives a regulatory regime may attempt to fulfil are also considerable, as the analysis presented in Section 1.2 demonstrated. Consequently, any assumption without verification of the objectives of a regulator may lead a company to pursue strategies that will ultimately conflict with the regulator, creating the potential for discord. This is not to argue that some form of disagreement and negotiation with a regulator is unhealthy. The evidence presented during the case studies shows organisations that were willing and able to petition regulators to make a case for their particular interests. However, the cases also show that very often the regulator works to his own agenda, and that even powerful organisations like Eastern Group can run into conflict.

The particular case of the ESI presents two fundamental lessons for organisational decision makers. These are to be both efficient and effective. The ESI's regulator saw the promotion of efficiency leading to lower prices, and maintenance of service quality while prices were lowering, as his ultimate goals. Therefore, to succeed within the industry cost reduction was an inevitability, and the failure to achieve cost reduction would be punished by the regulator, as was a failure to maintain service quality standards. Inevitably, as the influence of the regulator has diminished; or rather as competition has spread and organisations have established alternate income streams, the regulator's ability to punish has reduced, but the importance of cost reduction and service quality have remained.

13.5.2 Understand the Objectives of Other Stakeholders

The study has indicated that former regulated utilities arguably do not have the same degree of autonomy in decision making as companies with more well established commercial pedigrees. The research has suggested that many of the companies under investigation found themselves in a position where their initial strategic decisions were effectively turned around under the influence of their key stakeholders. In many cases, and despite the comments registered in Section 13.5.1, these key influences came from the financial institutions of the City of London. EME (Section 6.1), Eastern (Chapter Nine), and Seeboard (Chapter Ten) are all examples of organisation's whose strategies were constrained by unfavourable reactions from the City of London. Other RECs, like Norweb (Section 5.2), London (Section 7.2), and SWEB (Chapter Eleven), all experienced changes of strategic emphasis following their takeovers.

Essentially, the recommendation made here is that managers in enterprises which have undergone what Ogden and Glaister describe as strategic reorientation (Ogden and Glaister, 1996); which the author argues limits the options available to a new enterprise as the levels of existing expectation will be much greater than for a completely new organisation, need to conduct an audit of the particular aims and objectives of important stakeholders. Inevitably this involves the recommendation made in Section 13.5.1, but also includes other key stakeholders like owners, customers, and competitors. An early appreciation of the 'permitted boundaries' of organisational strategy will lead to less constraints upon strategy later in the process.

13.5.3 Understanding of the Value of Resources

The study has shown very clearly that organisations that base their strategies upon their resources, or more specifically upon the effective exploitation of their resources, can develop an advantage. In an industry like the ESI, as the study has further indicated, establishing innovation is not a straightforward process. While it can and does occur, it tends to be incremental and related, which makes it very difficult for that innovation to be defended by the innovator. The level of imitability tends to be high. Consequently, achieving real advantage through step changes is difficult. Organisations have, however, been able to benefit from the effective exploitation of unique capabilities: examples are evident from Eastern's market leadership in energy trading, London's in customer service, and United Utilities's in project management through its Vertex subsidiary.

This recommendation therefore suggests that companies prosper if they both understand the demands of their industry, but at the same time are able to exploit the potential offered by their resource base. In this study, therefore, the evidence tends to support the views put forward by Grant (1991) in respect of the centrality of resources in superior strategy making. It is less supportive of the views of Hamel and Prahalad (1994) in respect of the gateway to opportunity in other industries that resources offer, suggesting that utility companies tend to prosper in related situations.

13.5.4 The Importance of Delegation

This review of the industry has identified a number of key business practices which have become common among all of the companies. One such development is the importance of establishing an organisational structure which permits delegation of responsibility for decision making within a strategy as pattern approach. The industry witnessed a move away from functional, command and control type structures, towards more fluid, flexible divisional and delegated approaches. This was partially as a result of regulatory impulse, and partially evolutionary. More complex network structures are increasingly prevalent,

as the RECs realised the importance of instilling a more business focussed attitude among its SBU's - even those in regulated environments where such concepts were formerly alien. The importance of efficiency and effectiveness, as discussed above, were found to benefit from such structural change. The ESI can now be said to provide a variety of working organisational models for companies beginning to experience similar transformational demands. In particular, the work of companies in this industry in areas such as the creation of internal and dynamic networks provide a potential 'short cut' for organisations faced with similar demands.

13.6 Direction of Future Research

Throughout the thesis, a wide variety of possible extensions to the current research have been suggested, and delineated. The author argues that the importance of the concept of privatisation, as discussed in Section 1.2, means that the work conducted here should be built upon in pursuit of some if not all of these possible extensions. This section aims to bring these various potential extensions together to form what is in effect an agenda for future research in the field. While a considerable number of areas have been suggested, the author believes it is important to impose an hierarchy upon this agenda to identify the most pressing areas and guide the process. To this end, the author has identified the five most significant extensions to the research as being:

(a) The testing of the concepts developed here: this research has been identified as exploratory, in that it was seeking to identify a research framework from a single industry study that could be expanded to include all UK companies that have undergone similar experiences/industrial transformations. Consequently, the most pressing need for future research involves moving to the confirmatory stage which involves:-

- ▶ the creation of a research instrument based upon the 10 hypotheses established here, and other key issues which have emerged;
- ▶ its circulation to all of the companies created by the privatisations of electricity, gas, telecoms, water, rail in the UK since 1979 (including companies that have entered the industry(ies) after liberalisation;
- ▶ rigorous statistical analysis; and
- ▶ the drawing of conclusions leading to the establishment of potential governing laws which can influence the debate in this area.

The aim here is to narrow the many variables identified through qualitative analysis during this research, to allow for more quantitative analysis to be performed, as discussed in Section 3.0.1. In such a way, an alternate methodology would be employed to provide

additional confidence in the initial findings of the research, as well as helping in the verification of the extended objectives of the research. The proposed direction of future research maintains the author's commitment to triangulation through alternate sources of data collection and analysis, to validate and legitimise the ongoing conclusions.

(b) The extension of understanding of the relationship between regulatory regimes and strategy: this research has established a real need for analysis of the relationship between regulation and strategy. The interviews conducted in the UK and US have demonstrated that there is some discrepancy between the aims of regulatory systems in different countries. This will have an impact upon the scale and scope of corporate strategy. The author believes that the questions raised by this relationship have yet to be fully explored, and a further aim of this research is to seek to develop an understanding of this impact. The need for this research has been made clear during this thesis, and in particular by the problems encountered by some US companies seeking to operate in the UK market, but finding their strategies constrained by a regulatory regime whose aims and objectives they do not fully understand, or concur with. The author believes that as the energy industry becomes increasing global in scope, the possibility of the emergence of similar problems of this kind increases, and creates the need for the research.

(c) An assessment of the dynamic model of strategic drivers developed during the research: Figure 2.5, in Section 2.6.2, presents a model which the author believes can help with the ongoing discussion regarding the relative merits of the competitive forces and resource based views of strategy making within the firm. The model is an attempt to establish a dynamic framework within which the two views may be reconciled, and help in the creation of a wider framework which authors like Grant (1991) and Lynch (2000) continue to argue is missing from the emergent resource based view. The author's interest in pursuing this new direction is heightened by the development throughout the thesis of an organising theme, itself requiring additional analysis, which equated organisational size/power with the impact of external factors upon strategy making. Intrinsically, this future research would involve an attempt to establish whether any direct relationship exists between the archetypical strategy formulations and the patterns of influence exerted by the various strategic drivers identified throughout this research. The author believes that the model can help in this process and is keen to explore the potential it offers as a tool to aid in the process of strategic analysis and choice. In addition, as has been noted throughout this research, there is a need to ascertain whether there is continuity between the portfolios of influences which are crucial in both competitive and regulated environments, and to understand how any difference in importance impacts upon the strategic processes in each.

(d) The impact of dominant coalition composition on strategy in regulated environments: the research has suggested that Miles and Snow's (1978) analysis of the impact of dominant coalition composition upon the direction of strategy in a regulated environment needs to be reconsidered. The author has already made an initial excursion into this area (Ghobadian *et al*, 1997) and it is an area to which further attention should be given. The research also earlier established a need to understand the relationship between types of leadership, as determined by Burns (1978) and Farkus and Wetlaufer (1996), and strategic configurations. While this has to a certain extent been accomplished: in Section 12.2, the author believes this issue could benefit from a more formal examination.

(e) Further exploration of the concept of strategy combinations: the author suggested earlier, Section 2.6, that the work of Pearce and Robinson (1994) in respect of grand strategies may be extended through the creation of a variety of grand strategy combinations, which were presented in Figure 2.6. These concepts have been utilised throughout the research, and the author is confident of their validity. However, it would be instructive if the concepts developed earlier could be further tested (a) in the proposed extension of this research work described above and (b) through application in a non-regulated environment to ascertain whether the conditions assumed in their creation can be said to have universal application.

13.7 Predictions

At the outset of this research, in Section 1.2.4, the author's intention to make some predictions with respect to the future shape of the global energy industry, and the ESI's position within it, was established. Part of this objective has been fulfilled by a recent article co-written by the author (James *et al*, 2001), but this objective remains to be fulfilled. The article noted the current trend towards consolidation, which is a theme which has been evident throughout this research and which was captured in Proposition, now Hypothesis, 5. While the article concentrated upon consolidation within the UK industry, the author further argues that this trend is already evident across the global energy industry, and will continue to predominate.

The centrality of competition to the UK privatisation has not been evident in many other privatization's, or at least not to the same extent. Consequently, in many other situations market power has been concentrated in large, financially resourceful, and inherently secure megaliths such as France's EdF. Organisations of this kind possess the financial power, and global ambitions, to grow networks of subsidiaries in all of the key markets, some

times utilising strategic asset seeking investment, other times natural resource seeking or market seeking investment approaches (Dunning, 1993). This process can only continue, as competitive reality makes it harder for smaller companies like those in the UK to compete with national champions. The position within the UK, therefore, is for increased consolidation and extended overseas ownership: very much the picture evident at the present time but arguably with the potential to become even more consolidated.

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Appendix One Interview Framework

This appendix provides a copy of some of the framework's used to interview managers throughout the research. The following framework was set to case study companies in advance of a first meeting, in this case with Eastern Group. It forms the content of Interview UK003, as featured in Appendix Two:

Attachments: Topics and Questions

We are interested in looking at the process by which Eastern has adapted to the changed demands of its new operating environment. Part of this process involves understanding how the company has changed structurally since privatisation, and also how the mechanics of decision making have changed.

To this end, we would like to discuss the following questions

- 1) How has the internal structure of the Group developed, including the questions
 - * How was the group structured before privatisation?
 - * How is it structured now?
 - * Has the process been evolutionary or revolutionary?
 - * Have any individuals been significant in the development of the process?
 - * How much autonomy has been ceded to separate businesses?
 - * How does the company ensure the continued suitability of its operational structure?
- 2) How the mechanics of strategy formulation have developed, including the questions
 - * How was strategy developed before privatisation?
 - * How is it developed now?
 - * Has the process been evolutionary or revolutionary?
 - * Have any individuals been significant in the development of the process?
 - * Does the strategy formulation process differ among the separate businesses in the group?
 - * Have any special groups been instigated in order to manage or lead radical or evolutionary change?

In addition, we would like the opportunity to develop an understanding of how Eastern has responded to the challenges of the new environment in relation to three problems that face companies responding to changed circumstances. These are the entrepreneurial, the engineering and the administrative problems.

- 3) Entrepreneurial Problem: How the company came to decide upon the product/market mix that it now offers in the post-privatisation market place;
- 4) Engineering Problem: How the company has developed operational answers to the solution developed from the entrepreneurial problem; and
- 5) Administrative Problem: How the organisation adapted to take account of the solutions developed to resolve the entrepreneurial and engineering problems.

We recognise that there will inevitably be a degree of overlap between the questions of company structure and strategy formulation, with the entrepreneurial, the engineering and the administrative problems. As such, I have not included detailed lists of questions but would develop them later in the process.

If any of the above is unclear, I would be happy to expand upon it.

Attachments: People

You mentioned the possibility of meeting with others of your colleagues who might be interested in taking part in the research project.

It would be of considerable help to me to be able to speak to someone from

- The supply side of Eastern Electricity;
- The distribution side of Eastern Electricity;
and possibility if it is not too inconvenient
- Eastern Generation; and
- Eastern Natural Gas

The following framework for discussion was sent to the same interviewee at a follow up interview, and determined the content of Interview UK004.

Attachments: Topics and Questions

How has the internal structure of the Group developed, including the questions

- * How was the group structured before privatisation?
- * How is it structured now?
- * Has the process been evolutionary or revolutionary?
- * Have any individuals been significant in the development of the process?
- * How much autonomy has been ceded to separate businesses?
- * How does the company ensure the continued suitability of its operational structure?

How the mechanics of strategy formulation have developed, including the questions

- * How was strategy developed before privatisation?
- * How is it developed now?
- * Has the process been evolutionary or revolutionary?
- * Have any individuals been significant in the development of the process?
- * Does the strategy formulation process differ among the separate businesses in the group?
- * Have any special groups been instigated in order to manage or lead radical or evolutionary change?

This set of interviews was followed by interviews with managers in the field. The following structures were utilised to form the content of Interview's UK005 and UK006.

Proposed Agenda for Meeting:

I would like if possible to discuss the relationship between product and service offerings, and developing the appropriate support structure and company culture to effectively deliver these products and services.

Therefore

- 1) *How did your organisation arrive at the current product offering, and what is the process by which new product development is undertaken?*

This may include consideration of the market you are aiming to reach and the internal process by which you decide whether the current product offering is appropriate for your existing strategy.

- 2) *How your organisation arrived at the appropriate support structure to deliver your product offering?*

This may include a brief explanation of the internal structure of the business, and how it has changed over time and why. What are the operational considerations of these decisions? Are you doing anything differently to other organisations within the group, or has a common model developed within the group as a whole?

- 3) *How your organisation arrived at the appropriate management culture to deliver your product offering?*

This may involve a brief explanation of the management structure of the business, and how it has changed over time and why. Do you recruit people from different sources than previously, and do you expect them to be differently skilled? How different is your organisation to others within the group?

I realise that there is considerable cross over between these issues, and if you would prefer to approach the meeting on the basis of a general discussion that touches upon these points then I am happy to pursue such an approach.